We will of course refuse to talk unless we have to, but if Henry Wallace would be the one to want to discuss it with us, it would be very difficult to refuse him."

Something like this now happened, for John Jr. wrote his father three days later, on February 20: "This morning a *minor official* of the Board approached Miller, being very anxious to see Ed and claiming that the whole dispute with the Board can be settled instantly. . . . Mayer Meyer [Cargill's Chicago law firm] feel that it is probably a feeler from the Board, just as I do." John Jr. perceived broader political implications in what was going on: "Wallace has the Presidential Bee very badly . . . his scheme had been to pay the farmers' benefit checks and to secure votes in the cities by offering people on relief agricultural produce at prices less than the grocery store prices. . . . The reason for the many resignations in the department is that the more conservative people there cannot go along with him on abusing his power for this purpose." John Jr. concluded: "This all fits," for it reinforced his opinion that Wallace was dickering for a settlement.[48]

The toll on John Jr.'s energies now seemed to be affecting his span of attention. His brother wrote their mother and father on March 22: "John . . . feels that if he were at the office we would be doing considerably more business than we are. I don't doubt this, but both Julius and I feel . . . that the risks involved in doing what John would like to do seem out of proportion to the possible benefits . . . so we are keeping him home and not paying much attention to him. He is so wrapped up in the Board of Trade case that I would not want to trust his judgment as opposed to Julius' in ordinary trading matters until he has become more familiar with the grain situation." John Sr., worried about John Jr., too, responded: "John . . . is apt to disturb things without having the necessary background . . . this is no time to take unnecessary chances. . . . I insist that we play as conservative a policy as possible."[49]

Dr. Duvel on the Stand

When the hearings resumed on March 27, 1939, after a short recess, J. W. T. Duvel, the head of the CEA took the stand. Over the next four days, Duvel was questioned at length about several controversial aspects of the case, particularly those discussed earlier in this chapter concerning the contacts with Ed Grimes (Grimes had just testified on these) and with the CBOT officials. Duvel's testimony corroborated some of the testimony of Grimes, although Duvel differed sharply with Cargill's version on several key points.

The Cargill group felt heartened by this testimony; John Jr. wrote his father on April 1 that "the Board of Trade were very much put out over Doc's testimony and Miller confirms this by saying that the large delegation from Chicago who are in Washington looked very gloomy indeed while Doc was testifying. . . . Miller also added that Doc was obviously an unwilling witness . . . my regard for him has risen appreciably as a result of his testimony." A *Chicago Daily News* article, headlined "Cargill Kept CEA Informed on Moves—Duvel," was generally positive for the Cargill position.[50]

The key testimony in the case having been given, the hearings seemed to slide downhill. John Jr. wrote on April 10: "The thing has degenerated into a debate between Ellis and Goldsmith, with the Referee siding with Ellis on most occasions." Cargill had contracted for the services of an expert witness, Professor Roland S. Vaile, a University of Minnesota marketing expert. As so often true with expert witnesses, the questioning soon turned to esoteric hypotheses about theoretical features of grain trading and futures contracts. Vaile reinforced most of Cargill's theses about the futures market (these being particularly John Jr.'s philosophies) but occasionally was caught in a contradiction, his testimony momentarily eroding the Company's case. Later, when the case had been recessed, Howard Ellis, the Exchange lawyer, moved that the Vaile testimony not be included in the record of the hearings (his reason: that the testimony was "incomplete and misleading"). The referee rejected this, and it was printed in full.

By this time, many people seemed to have become tired of the case. One of the newspapers in early May headlined an article "Drama of Corn Is Assured of Long Run Here: 1,600,600 Words Spoken and First Act Is Still Uncompleted." The article began sarcastically: " 'Bull Meets Bear,' or 'Whose Shoe Pinched the Corn?' A thrilling melodrama with the grain pit of the Chicago Board of Trade as its setting—is here for an indefinite run." The article continued with further tongue-in-cheek comments: "In ye olde tyme melodrama, the villain was prone to tie the beautiful gal upon a railroad track and chuckle with glee as the fast express approached, only to be foiled by the dashing hero. In 'Bull Meets Bear,' the idea is changed somewhat. The hero (Cargill, Inc.) is depicted as doing well by his gal (the farmer), only to be foiled by the villain (the Chicago Board of Trade).[51]

The whole issue received a shot in the arm, however, in late spring 1939 with yet another alleged "corner" at the CBOT, this time in May 1939 wheat. The situation once again involved an open interest far in excess of the supply. The CEA intervened to obtain information; the shorts were allegedly imperiled by a reputed "squeeze." Although the squeeze eased at the end of the contract, prices did shoot up at the point of liquidation. This time, the shorts took a drubbing. One of the Chicago papers headlined: "Shorts Facing Tightest 'Play' Since Cargill Corn Incident of 1937," and the article mentioned Cargill prominently as possibly being one of the longs. But after the whole matter was settled, no facts leaked out as to the positions on either of the sides. The shorts did have to pay; and this led

Business Week, in its lengthy article on the story, to repeat again one of the enduring clichés of the industry, "He who sells what is not his'n must pay up or go to prison."

As June 1 arrived, it was apparent that almost everyone involved in Cargill's case against the CBOT was exhausted. One of the papers that day, sensing a termination, headlined its article "At Last!" On June 5, a recess was called; one paper reported that by this time there had been "4,000,000 words fired," and it predicted a "torrid summer" as both sides jockeyed with posthearing briefs and motions to dismiss.

John Jr. realized now that Cargill's efforts at public relations might have been counterproductive. Rather than changing the message, he killed it altogether. On June 5, 1939, he sent a memorandum to all offices in the Company: "It has come to our attention that press releases have been made from our outside offices which have caused us considerable embarrassment. In order to prevent any further such embarrassment all members of outside offices will please consult the Minneapolis office before issuing any statements for public consumption." Even a request from *Grain and Feed Journal* for information about the Company's new Erie Canal barges was turned down by John Jr. himself.

John Jr. had felt thankful enough for the efforts of Ted Young and Hayes Miller that he tendered each a substantial block of second preferred stock; these were "the only two that we have shown this recognition to, due to the very serious condition of the grain trade during this past year."[52]

Dan Rice Speaks Out Again

Meanwhile, there was a disconcerting development relating to the Corn Case. Daniel Rice had fumed for months that Cargill's huge Northwestern warehouse in Chicago had remained open as a public warehouse, even though the CBOT rules presumably allowed the Exchange to take this privilege away. The fact that Cargill's CEA case against the CBOT was still in progress might well have been a legal obstacle. "It seems rather paradoxical, to say the least," a June 20, 1939, letter from Daniel F. Rice and Company to the Exchange's president stated; "the expulsion of the Cargill Grain Company should be made effective . . . it should be expelled in reality as well as in name . . . the privileges that this expelled firm enjoys . . . are being so ostentatiously and brazenly flaunted that it has created in the public mind the idea that Cargill . . . was wrongly expelled and that the Board of Trade dare not make its expulsion a reality." Rice was probably right—the Exchange officials still felt cautious about their own position with the CEA and declined to face the heat of closing down public warehouse rights at the largest terminal in the whole area.

Within days of this Rice query, rumors began to circulate on the floor of the CBOT that (according to H. S. Yohe, the CEA official in charge of the U.S. Warehouse Act) "considerable stocks of corn in the Chicago & Northwestern Terminal Elevator which is operated by Cargill, Inc. . . . were out of condition and that there was some talk of posting the elevator." Yohe dispatched a "corps of examiners" to the elevator on July 1 and was able to report to the CBOT secretary that this was not the case. Yohe, even-handed, continued: "Since it appears these rumors were bandied about quite a little among some of the members of the Chicago Board of Trade . . . it is felt that in the interests of protecting the Chicago market as well as in justice to the elevator man in question our findings should be given due publicity in the trade and on the floor of the Board." Such a statement was made, but it was after the fact. Although John Jr. exulted, "Strikes me we can capitalize on this in a large way if we handle it skillfully," the overall effect was one further negative slash at Cargill.[53]

Two Decisions

On August 10, the CEA finished taking all of the addenda; the testimony now totaled 14,199 pages. Howard Ellis, as chief Exchange trial lawyer closed the last day, and Hayes Miller grudgingly admitted to John Sr. that the final argument by Ellis "was a beautiful thing to watch." He used his "fine display of dramatic ability," said Miller, to sprinkle the record with clever one-liners. He called Cargill's allegation "poppycock," said that the Company's findings of fact had given play to many "wild suspicions" by John Jr. and concluded that Cargill displayed an "egocentric line of reasoning." Thus ended testimony on "the great Corn Case."

The CEA now felt free to bring its own case against Cargill (CEA Docket No. 11). Hearings began in Washington in early September 1939, then were moved to Minneapolis later that month, continuing there through October and November. A great deal of time was taken up in stipulations concerning the facts already on the record in Cargill's case against the Exchange (CEA Docket No. 6). But new facts were introduced, too, relating to the allegations by the CEA of the presence of Cargill "wash sales" in corn futures on the Minneapolis Chamber of Commerce (May, July and September 1938 contracts). There was no doubt that Cargill actually had simultaneously bought and sold futures in each of these contracts—the facts established this. Further, these were not traditional spreads between and among contract months. The CEA called these "wash sales" and, despite Cargill objections that they were not, included this term in their final order.

There is always an underlying reason for such simultaneous trades, for

on their face there simply would be no rationale for them. In this case, the CEA alleged that Cargill did this to increase the reported open-interest figures and therefore enhance the appearance of liquidity in the Minneapolis exchange, making it a viable alternative to the CBOT for marketing of corn. The open-interest totals for the three contracts in corn (May, July and September) went from 2,600,000 bushels on March 28, 1938, when Julius Hendel first bought for Cargill, to a high of 10,325,000 bushels on April 25; they then declined rapidly to 2,955,000 on June 1. The Minneapolis corn contracts had been dormant for several months; March 28 was the first day of renewed trading.

More than two dozen Minneapolis brokers were subpoenaed. Each was asked the exact details of Cargill's purchases or sales (there were more or less equal amounts of both). In a long document defending the Minneapolis trades that Julius Hendel prepared for possible later Cargill testimony, he argued that the trades were not fictitious wash sales because "no trade of Cargill's had any malice aforethought with intention to defraud, as every trade was a bona fide trade executed in the pit and had a definite relationship to the market." Of course this begged the question of *what* "definite relationship."

Increasingly, it began to look to Cargill as if the whole case was lost. The "tentative findings of fact" of the referee in Cargill's own case against the CBOT had been made public on January 11, 1940; these had laid out the entire record of Cargill's involvements in the September and December 1936 and September 1937 corn futures. The referee had also issued a proposed order to dismiss Cargill's case against the CBOT, and this had to be confirmed by the Commodity Exchange Authority (the three Cabinet secretaries). But at this point it seemed a matter of course. The case had visibly affected the fortunes of all of the participants. The CBOT officials, continuing to be concerned about how the CEA viewed them, breathed a collective sigh of relief. One official telegraphed: "McGinnis tentative findings reported today. No barbs or sideslaps in decision to dismiss." The Cargill group was quite downhearted, both about the damning record and the proposed decision to dismiss.

The hearings had been recessed for December and January. Upcoming testimony on the second case (CEA No. 11) was to center on Cargill's trading in the December 1937 corn contract; here Cargill was a short, and it had been to the Company's advantage to have the prices drop so that the Company could unwind more favorably. When these hearings resumed in early February 1940, further testimony was taken from the Uhlmanns and from a number of new witnesses, most of them brokers at the CBOT. When one of the government witnesses, W. T. Buster, became ill and could not return to the stand for further examination, the CEA attorneys asked for a recess. The Cargill attorneys immediately queried if the government intended to rest after the reexamination of Buster. The chief CEA attorney replied, "Well, I can't say. I don't know what may develop on Mr. Buster's cross-examination." This was an uneasy answer for the Cargill group.

At this point, Cargill was brought to one of the most wrenching decisions it had had to face in all of this set of events, namely, whether to continue to fight the CEA complaint. Irving Goldsmith, Cargill's chief trial lawyer in both CEA cases again was ill (he died in July 1941, at 39 years of age). Perhaps this influenced Cargill's decision. Cargill also had realized that its case in defending itself against the CEA allegations was not strong.

An internal memorandum in early February 1940 spelled out the pros and cons of Cargill stipulating on this (i.e., agreeing not to continue and accepting the CEA referee's judgment). One of the telling arguments for acceding to the stipulation was concern about this further testimony. The memorandum put it this way: "Given the testimony of sixty brokers, some may make harmful statements, e.g., 'I knew that filling Cargill's large order forthwith would depress the price, but I had no choice, since they insisted they be filled immediately rather than gradually. I do not know their reasons, but I can say that this certainly was not the best way to sell to get the best possible price.' "

John Sr. initially opposed any backing off. He felt that John Jr. was being "singled out," that "the honor of the family as that of the business was at stake" and that Cargill might "stand enough better . . . to fight to the bitter end even if the cost is frightful." But John Jr. had had enough. In Jamaica for his vacation, he wrote his brother: "If we can settle this . . . with me being the goat, it is well worthwhile." He left no doubt about his personal discouragement: "It will go a long way toward making for peace of mind for me."

Cargill now decided to capitulate. In a meeting in late February that included John MacMillan, Sr., Cargill MacMillan and James E. Dorsey, a tentative decision was made to negotiate a settlement with the CEA. Cargill MacMillan cabled his brother at his hotel in Jamaica: "What is your reaction to settling basis; no slap at company except suspended suspension [*sic*] of license as future commission merchants but you take indefinite personal suspension. Peterson's judgment is this will not affect our credit."

John Jr. responded with a one-word telegram: "Splendid." A day later, Cargill cabled again: "Negotiations have boiled down to what we consider better basis, namely you and Cargill Grain Illinois take indefinite suspension everyone else including Cargill, Incorporated goes scott free. Father approves this; do you?" John Jr. did, and this became the final basis for settlement. In an order dated March 6, 1940, signed by Henry Wallace, the CEA ruled that Cargill had "waived further hearing in this cause" and

had consented to the final CEA order. This order closing the case was quite draconian, and read as follows:

> IT IS HEREBY ORDERED that all contract markets, until further notice by the Secretary of Agriculture, shall refuse all trading privileges thereon to John H. MacMillan, Jr. and to Cargill Grain Company of Illinois, and to each of them.
>
> IT IS FURTHER ORDERED that the complaint herein be, and the same hereby is dismissed with prejudice to the commencement of any new action for the causes, stated in said complaint as to respondents E. J. Grimes, Julius Hendel, Philip C. Sayles and the corporate respondent, Cargill, Inc.

Dorsey wrote John Sr.: "I am satisfied (a) that this settlement cannot reasonably bear the implication of an admission by anyone of any offense tainted with moral turpitude and (b) from the interviews John Peterson has had with the Chase, National City, and First National here, that the credit of the Company will not be adversely affected." But John Sr., unforgiving, called the CEA itself "vicious."

The banners in the newspapers were vivid; the *Chicago Tribune* headlined its story: "Bar MacMillan from Trade in Grain Markets," and the *Minneapolis Tribune* used the word "blacklisted" in its lead. Most of the rest of the articles, while using the words "bar" in various ways, at least only used the word Cargill as a company, rather than MacMillan as an individual. The case was "finished," said another.

Cargill, worried that its customers would think that it truly was "finished" (rumors were already circulating that Cargill was going to "reorganize"), now persuaded the CEA to clarify their order, making clear that while John Jr. and the Cargill Grain Company of Illinois were barred, Cargill, Incorporated, continued to have trading privileges on contract markets. "Mr. MacMillan himself cannot trade, but the Company may," clarified the *Chicago Journal of Commerce*. It was an embarrassing moment for the Company. The final insult to John Jr. was his expulsion two days later from the Minneapolis grain exchange; it was required, of course, by the CEA order, but being named in person in his home exchange must have hurt.

No mention whatsoever was made in the *Cargill Crop Bulletin*, nor was there anything in the *Cargill News*. The Company did put out an internal memorandum to all of its managers, under Cargill MacMillan's signature, enclosing a copy of the CEA's order. The memorandum continued: "We are doing this purely for your personal information. May we emphasize that under no circumstances are we or you to give out any publicity to the press in connection with this matter." The memorandum assured that "there is no foundation in the accounts that have been given in many of the papers that John H. MacMillan, Jr. will have to divorce himself from the management of Cargill, Incorporated, nor is there any contemplation of any reorganization within the Cargill companies."

Perhaps Cargill MacMillan felt that his brother's image indeed had been tarnished, for he closed: "Moreover, the order denying trading privileges to John H. MacMillan, Jr. applies only to his trading personally and has no application whatsoever to the present unrestricted trading privileges of Cargill, Incorporated on the various exchanges. . . . the Cargill management does not tolerate personal speculation. . . . John H. MacMillan, Jr. has never had any personal trades in grain futures in his life."

It remained now only to learn of the final decision in the other case, Cargill's suit against the CBOT. The settlement of the CEA's own case and the January "tentative findings of fact" in Cargill's case telegraphed the answer even before it came. On August 25, 1940, the CEA ruled against Cargill in its case and dismissed the action. The *Chicago Tribune*, in its major article, summed up the public reaction: "Board of Trade Wins Long Corn 'Corner' Fight."[54]

Late in the year 1940, it seemed that at least some of the influential CBOT members wanted Cargill back. Most surprising was the reaction of Kenneth Templeton himself, who wrote to John Jr. in November: "It would take too much time for me to write and too much of your time to read what I could write . . . of the 'misunderstanding' which took place between Cargill and the Board of Trade. Some day I would like to sit down and talk to you about it and tell you what a pack of damn fools we all were to allow such a 'misunderstanding' to take place." Templeton offered his good offices to "heal all wounds."

John Jr., taking this as a sign of weakness on the part of the CBOT, wrote Weston Grimes that he did indeed want "to get out of jail" (the game "Monopoly" had become the craze in the late 1930s, and this term had moved into everyday vocabulary). But he insisted that the CEA come to him, rather than having it appear that *he* had taken the initiative. The Cargill lawyers continued their private efforts toward a reconciliation, however.

The CEA now agreed to restore John Jr.'s privileges, but the order effecting this was another jolt to the Cargill group. The reinstatement order read in part:

> On June 18, 1942, the Agricultural Marketing Administration filed a statement containing its views on the application. The statement relates that after extended hearings, the length of which was due largely to respondents' dilatory tactics, respondents stipulated that John H. MacMillan, Jr. had directed the activities which were the subject of the complaint. . . . The statement also expresses the opinion that the seriousness of the offenses resulting from the respondents' activities has been impressed upon the respondents and that the public interest does not require the trading privileges of John H. MacMillan, Jr. be longer denied.

Weston Grimes wrote Cargill MacMillan his views: "While I am not exactly enthusiastic about this order, as finally entered, I do think, on the

whole, it is not too bad. It is quite apparent Joel Mehl felt it necessary to go into some detail about 'dilatory tactics' etc. . . . but at least there is nothing very specific stated such as a particular reference to 'corners' and considering the point at which the hearing ended, I think it might be fair to infer that violations if any, occurred in connection with corn operations in Minneapolis."

This latter judgment by Weston Grimes—that only the Minneapolis "wash sales" in the March 1938 corn contract were in question—seems simplistic. After all, this Minneapolis incident was merely a vignette in relation to the CBOT corn contract issues. At any rate, John Jr. himself apparently did not feel that this CEA order vindicated him and wrote the CEA: "As my position has always been, and still is, that I did not violate that Act, I am compelled to take exception to this statement." He continued to refuse a return of the Company or himself to the CBOT, holding this view to his death in 1960.[55]

Did Cargill Attempt a Corner?

Fortune magazine said yes. In a trenchant article on the grain trade, written in August 1949, a decade later, the Corn Case was still featured. By then, with the benefit of that decade of hindsight, the case had assumed its historic role as one of the bellwether battles of grain trading.

The *Fortune* article highlighted the competitive aberrations that had been present. This was "extreme manipulation," according to the author. It was "the squeeze absolute." If the long was able to control the supply, the short could not get out, and therefore the long dictated the price: "During famous corners in the past, the long sat in his office and granted audiences to the poor bedraggled shorts."

Then the article recounted the Cargill Corn Case: "The last big corner was run by Cargill in corn in September, 1937. But the Chicago Board of Trade stepped in near the end of the futures month, suspended trading, and let the shorts out, though not without considerable loss to them." The author featured John MacMillan, Jr.'s role in this: "The greatest feud in the grain market today is between the fast-talking, fast-moving John MacMillan of Cargill in Minneapolis—the largest grain merchant in the U.S.—and the shrewd, laconic commission man, Dan Rice, head of Daniel F. Rice & Co. of Chicago. . . . It is generally understood that when one of them is on one side of the market, the other will be found on the other side." The article featured two large line-drawing likenesses of the two men, with short biographical sketches juxtaposed.

This was indeed a battle of personal egos. Both the principals were unabashedly their own bosses; they were CEOs in the literal sense, un-

The two adversaries, Daniel F. Rice (left) and John H. MacMillan, Jr. (right), FORTUNE *magazine, August 1949* (Raymond Breinin, FORTUNE Magazine. Reprinted by permission).

questionably authoritative and, more often than not, authoritarian. Both were brilliant, obstinate, self-willed.

Just a few months before the *Fortune* article appeared, *Business Week* had featured Cargill in a major article and had put John Jr. on the cover. By the 1940s, John Jr. had become a nationally renowned personage, his fame spreading beyond the grain trade itself; indeed, many people believed that the lyrics "Mister Thorne . . . once corner'd corn and that ain't hay" in the Cole Porter song, "Always True to You in My Fashion" referred to the Corn Case, perhaps even to John Jr. himself.

John Jr. had managed the entire case—this is quite evident. Ed Grimes, Julius Hendel, John Peterson, Cargill MacMillan, Philip Sayles and Austen Cargill all had roles. John MacMillan, Sr., was available throughout the cases as the conservative, elderly oracle, though he always defended adamantly John Jr's morals, his ethics and his honesty. The lawyers too had their own inputs, especially Irving Goldsmith and Sumner "Ted" Young. Yet John Jr. was all-pervasive. It was *his* strategy, *his* tactics, *his* underlying motives that dominated the entire story. Whatever the strengths and weaknesses for Cargill resulting from the Corn Case, they can be attributed directly to John Jr.

A highly intelligent person, John Jr. depended on sophisticated analysis, his and others, for his decision making. He fervently believed that if Cargill used good foresight and understood the market better than others, this advantage would be rewarded with profitable trades. Fred Uhlmann commented on this intense John Jr. conviction: "They really thought the

corn was worth a great deal more. . . . He had charts made showing how much corn would be wanted in September and October." John Jr. stubbornly believed in himself, almost to a fault. His reasoning was that he had assessed the corn situation better than others, knew which side of the market to be on, and had made binding commitments as a long with others whom he felt also had made binding contracts to him. He was driving a hard bargain, to be sure, but a bargain that was perfectly legal. As the *Wall Street Journal* put it on September 4, 1937, right in the middle of the purported squeeze, "it is simply a natural corner . . . buyers are well within their rights in standing pat for delivery." A Julius Hendel aphorism, often repeated by John Jr., held that "the cure for high prices is high prices"—in other words, pure, rugged, supply-and-demand competition. On the supply side, production would be stimulated by the high prices, bringing greater supply and downward pressure on prices. At the same time, substitutions would be made whenever possible, also decreasing demand. If John Jr. had miscalculated, been on the other side of the market, he would have taken his losses in stride.

Two questions need to be raised about this reasoning. First, if the September 1937 corn contract had been allowed to expire under the original provisions of the contract, John Jr.'s very large holding of long contracts likely would have forced many shorts either to bargain with him on a settlement price after the contract had expired or to bid up the price by open outcry in the pit, prior to expiration. This is, of course, the essence of a corner—one side attempting to dictate price. The fact that the shorts stayed silent is a telling commentary; it tends to support an inference that the shorts assumed they would be bailed out by CBOT intervention.

There seems little doubt in the September and December 1936 corn cases, and even less in the September 1937 case, that one of John Jr.'s several goals was to be the long who "granted audiences to the poor bedraggled shorts." Another of his stated goals, as he repeated over and over, was to obtain physical product for purchasers of Cargill grain to whom the Company was already committed. However, he was never able to make a credible case on this. If he had, he possibly would have won the case.

It is equally clear that John Jr. sincerely felt that the price of September 1937 corn futures should be in the neighborhood of $1.40—his analysis from his charts told him so. In effect, he was saying that this was the "competitive" price, set by supply and demand. Yet this was circular reasoning—he had the ability by the size of his purchases to fundamentally affect supply itself, at least temporarily, right around the close of the contract. John Jr.'s intersection point for supply and demand became a self-fulfilling prophecy.

This leads to the second concern, one that John Jr. apparently failed to acknowledge. Cargill's dominant size in the industry—it was by 1940 one of the largest traders in the country—gave it enormous market weight. If Cargill coughed, the grain trade got a cold (to use the venerable analogy). John Jr. did not admit this. He refused to see that Cargill per se could distort the market just by its normal commercial purchases, or at least it had the potential to do so, a potential that constantly would have to be monitored by regulating agencies, the two most important being the CBOT and the CEA.

In May 1939, in an impending ICC barge rate case, John Jr. again wanted to take a high profile, and Ed Grimes warned him: "There is a general knowledge here in Washington that we are a big outfit and, whether you know it or not, there is a definite prejudice against bigness. . . . I do not think it is good policy to antagonize people at this time. We are fighting now for our very existence in this CEA case—I think it is plenty as it is . . . we should be cautious about going out of our way to make more enemies." But John Jr. seemed not to see this.

John Jr. was totally correct about the sanctity of the contracts themselves. The grain trade absolutely depended on everyone's word being good. The frenetic pace of the pits, where thousands, even millions of bushels could be traded in a matter of minutes by eye contact alone (in the "open outcry" milieu) would be unworkable without implicit trust. Indeed, the whole edifice of an exchange like the CBOT would collapse instantly if this were not so. If its Business Conduct Committee did allow the shorts an "out," which it seems it did, then the sanctity of contract truly had been bent. The leaders of the CBOT, despite their solemn statements about the great portent of the case and their "deep concern" for its ethical dimensions, probably did not fully realize just how consequential this case was. If the notion had been planted that shorts (or in some other situation, the longs) could in later cases have their losses mitigated by action of the Business Conduct Committee, a fundamental tenet of the Exchange would be threatened. The Business Conduct Committee was on a higher tightrope than it realized.

The tactics of both sides in the case left something to be desired in terms of these deeper facets of market trust. John Jr. had been calculating and had resorted to subterfuge at many points in the saga. Cargill had traded with the Uhlmann Grain Company for some 49 years. Still Richard Uhlmann testified in the McDonald hearings that John Jr. "would never confide in me."[56]

Yet the record also shows that these Cargill tactics were matched step-by-step by those on the other side. Dan Rice was a master at these. For many years before this case and for many years after, the strategems and the wiles of these traders have been the sine qua non of speculation in the exchange pits around the country. At stake here was the very validity of speculation.

Mistrusting the Speculator

Those who understand the grain trade believe almost universally that the continuity, liquidity and balance of the grain exchanges is fundamentally provided by the speculator. An overwhelming percentage of the trades on the CBOT was speculative. *Fortune*, in its 1949 article, estimated the figure at 90 percent of the trading in wheat and corn. This tremendous volume, typically far greater than the actual product available, provides, through the interaction of supply and demand, that key feature of liquidity. Yet the notion that all of these people were trading "paper" corn or "paper" wheat has bothered the layman for years. If short-term bullish or bearish excesses appeared to be present, the mistrust by the public heightened.

Shorts always had come in for particular opprobrium. If speculators in general are "traffickers in human misery" (*Fortune's* term), then the shorts were thought to be a particularly heinous group. The prediction of a short is that prices will drop. Thus, a short seems to be trading on the misery of farmers and others. Alonzo Taylor, one of the respected writers about the grain trade in the 1930s, put it this way: "Lower prices for farm products are taken to mean lower wages, lower standards of living, and lower land values. . . . Higher prices come to be looked upon as a social improvement, while lower prices spell social deterioration. To forecast a higher price has become praiseworthy . . . a lower price blameworthy." Writers in the earlier muckraking period often stereotyped the two—the longs were "active, gregarious, bold, clever" and shorts were "sly, ascetic, cryptic, aloof, cynical." (One would need to add that higher grain prices meant higher bread prices for the consumer.) It is easy to see why short selling was so heated an issue and the subject of much legislative concern in the New Deal period. Lost in that argument was the fact that the longs could be equally speculative in their guessing that the market would go up. The *Fortune* article emphasized this point: "Although the public (along with the farmer) is believed to be generally a bull in the market, the professional speculator rides the market both ways and includes the public trend in its calculation."[57]

Sometimes lost in discussions, too, is the fact that spreaders also are taking positions, though usually in total exposures carrying somewhat less risk than the speculator's one-side-of-the-market "naked" position. Futures prices for different contract months seldom move in absolute lockstep. They do move in *similar* patterns, and this partial predictability is the glue that makes hedging a good mechanism for price-movement protection. Cash markets, too, have these patterns, again almost always with variations. The widening and narrowing of these spreads provide a significant opportunity for profit for a grain trading company like Cargill. John Jr. and Julius Hendel prided themselves on predicting this. The Company might always be "fully hedged"—John Jr. stated this as Cargill policy over and over in the Corn Case, just as John Sr. had so often in previous periods. But John Sr. meant it more literally—yes, an evolving favorable spread might be followed for a short while, but his rock-solid caution would pull him back, sooner rather than later.

A strong case can be made, however, that as John Jr. and Julius Hendel took central responsibility first for wheat and then for all grains, this thoroughgoing hedging philosophy began to change, first subtly, then more openly in the mid-1930s. Trading profits, made on the spreads, became more of the game; perhaps the strictly service concepts of storing and moving grain became relatively less important, although this seems an overgeneralization, too, for John Jr. had great interest in new terminals and new ways of moving grain as part of his overall strategic planning. Still, the trading motif of the 1930s did evolve toward hard-nosed bargaining. Julius Hendel often repeated an old industry adage: "If he's yours today, tomorrow he's mine for a 1/4" (i.e., loyalty can be bought for a quarter of a cent on a bid). The heightened importance of spreading in John Jr.'s and Julius Hendel's minds mirrored this changed mentality. The payoffs had been high, with excellent Company profitability; any reservations John Sr. might have had likely were allayed by this fact.

John Jr., when asked in his testimony in the CEA case about the difference between hedging and spreading, vowed that the latter was not "a speculative transaction." When pressed on this, he facilely replied: "We are unable to see that there is any material difference . . . because *the moment the nearby contract matures* it becomes a hedge" (my emphasis). But this begged the real question—before that point, a speculative position had been taken predicting how the price of that nearby future would move up to maturity. John Jr.'s rhetoric on this issue throughout the case was not straightforward, nor was Rice's!

The CEA Assesses Speculation

The arbiter of the limits of speculation since the mid-1930s has been the Commodity Exchange Authority (renamed in the mid-1970s the Commodity Futures Trading Commission). One of the revealing aspects of the Cargill Corn Case is seen in the tentative early efforts of the CEA officials (and Henry Wallace, the Secretary of Agriculture) to define the type of competitive environment for the exchanges. The roles of Dr. Duvel and his assistant, J. M. Mehl, were particularly ambivalent—they had extensive contacts with both sides of the case, their very actions and words influ-

enced the case and they were developing heretofore uncharted public policy piecemeal as events progressed.

The CEA was not a strong agency in 1937–1938; it was seen by many as the handmaiden of the exchanges. Even in recent years, rejuvenated as the Commodity Futures Trading Commission, the agency has never been the counterpart of the Securities and Exchange Commission, the regulator of the securities side of the "trading" industry. The *Fortune* author, writing in 1949, at a time when the grain trade was again under public attack, faulted the CEA as having a limited and constraining view of competition: "In the abstract the CEA's position in the market is uncontested . . . it 'seeks to make price a reflection of supply and demand, a result rather than a reason for exchange transactions.' To this end, the CEA seems to want to create a market that is 'dull' but liquid. This has been the ideal of classical economists, but it is questionable whether it is realistic. Traders trade and the speculator may not stay in a dull market."

In the Corn Case, the CBOT of that period saw itself as a bastion of rugged free enterprise, rigorously defending its prerogatives and emphasizing the values of speculation. By the 1940s, according to *Fortune*, the CBOT had become more timid, had "committed themselves to church-supper public relations." At the time of the Corn Case, however, the CBOT advocated the least amount of outside regulation—its ruling powers believed implicitly in "self regulation." The "old boy" domination of the Exchange was supreme. There had long been a belief that one could not become president of the CBOT unless one's father had been. John Jr. had accused the CBOT officers of being a "social club," but it had become more than that, perhaps something on the order of a medieval guild. The CBOT seemed sublimely confident that it was *the* Exchange, which irritated the members of other exchanges. In particular, the Minneapolis Chamber of Commerce and the Kansas City Board of Trade both felt that they had become major forces in the grain trade and should be accorded their due. The CBOT consistently held that they themselves were the dominant force, entitled at that time, for example, to an automatic presidency of the Grain Committee on National Affairs, the overall group set up by the industry to represent all of the member exchanges.

Whether these exchanges, and particularly the CBOT, could be self-regulating remained a concern throughout the 1930s. Later, circumstances in the 1940s, 1950s and 1960s conspired to limit somewhat the role of the grain exchanges—first World War II, then nagging surpluses and postwar government domination of the national and international grain situation gave the exchanges a somewhat lesser role. To be sure, the development of soybeans as a major crop and the availability of exciting, volatile soybean futures contracts added a new dimension. But not until the burgeoning trading of the early 1970s (particularly intensified by Russian grain purchases) did the vitality shown by the exchanges in the time of the Cargill Corn Case return.

The Industry Loner

John Jr. rigidly held to his vow at the end of the case that Cargill would never return to the CBOT; not until after John Jr. died in 1960 was any consideration given to a return (which the Company did in 1962). Was this decision to stay out of the CBOT, and the case itself, costly to Cargill? The Company had lost a great deal of money in the crop year 1937–1938; the following crop year saw profits of only $211,000, but the 1939–1940 crop year produced substantial earnings of well over $1.1 million. John Jr. remained innovative and forceful in his ideas and decisions during this period. The case preempted substantial management time all through the 1937–1939 period, a significant cost. The Company accountants compiled the "combined expenses" of the two cases and this figure came to a total of $234,740. But this only marginally accounted for the preoccupations that had worried Cargill MacMillan so much, and the lost opportunities were immeasurable. In the accountants' statement, John Jr.'s time was estimated at only $6,068 for over three years of his energies, devoted so single-mindedly to the case—definitely not a reasonable figure.

There were corresponding compensations. The Cargill attack on the Call Rule had been so strong that while the rule itself momentarily remained in place, a great many people in the industry then followed Cargill's lead out into the field to buy direct. John Jr.'s personal reputation seemed not sullied; indeed, he himself and Cargill as a company were probably taken even more seriously.

The Corn Case was a true milestone, not only for the broader concerns of Exchange regulation and governmental control, but also for Cargill's philosophy of management. Ed Grimes had proved to be a master at "networking" (the somewhat overworked term of the 1970s). His reputation in Washington was excellent, the linkages he had built with brokers, commission houses and others throughout the industry had given the Company a model for better public relations. He had come to the Company in 1904 as John Sr.'s secretary, and his values mirrored those of John Sr. He was of John Sr.'s generation, more than of John Jr.'s.

The Company seemed to change—to be more watchful, less trusting, more willing to "go it alone." One negative effect of the case was to constrain the use of the Company's private wire system—many Cargill people became fearful about leaving a record that might be subject to a subpoena at a later date. In the process, Company people sometimes were denied information that was needed, perhaps even already public knowledge. Secrecy was pervasive in the industry; one of the canons of the grain trade is

taciturnity. Yet it seems likely that John Jr., already with more than an industry portion of this "loner" independence, had had this trait exacerbated in the corn case.

In moving into any business or social group, John Jr. was used to becoming the natural leader because of his brains, verve and strategic thinking. He expected this obeisance and sometimes seemed almost to look down upon those around him as less brilliant. There is more than a passing reminder of Teddy Roosevelt in John Jr. When he became involved with the CBOT, the expected role did not come to him right away—it *was* a tightly constrained closed circle. Perhaps he eventually would have been able to breach this wall, but it would have taken time—he would have had to "pay his dues." A pecking order was not in John Jr.'s style.

This was a loss for John Jr., both personally and professionally. It would have been a chance for him to have his rough edges rubbed off by the actions of the group. This might have had a tendency to stifle some of his initiative temporarily, but it might also have constrained some of his more eccentric projects and saved him some embarrassment. He had not had to deal with a group of independent peers and their restraints since college. Even in the army he had his authority direct from the general. With the CBOT, he did not possess an automatic authority, and in anger, he was not willing to deal with the approval or disapproval of these outside counterparts. With Cargill so prominent in the industry and with much to gain for *both* sides from industry interactions, this unwavering opposition to the CBOT seems, in retrospect, to be a somewhat star-crossed decision, one that probably did substantially hurt the Company over the succeeding years. It also hurt the CBOT.

Balanced against this were a number of positive outcomes. For Cargill, the need to go it alone seemed to add impetus to Company innovation, to an attitude that always questioned, "Why can't we do this a more efficient, more creative, more effective way" rather than "You can't do this—it isn't in the tradition." The attack on the Call Rule is a case in point—there certainly were elements of monopoly inherent in this arrant effort by the brokers to preserve the status quo in the name of "orderliness." Cargill's decision helped to "deregulate" the industry (to use another term of today), at least for key aspects of cash grain trading. The Company's challenge of old methodologies and conventional wisdoms seemed to grow faster after the Corn Case.

However, this attitude can also lead to arrogance—"We know how to do it, don't question us." John Sr. had always striven to gain consensus. There was less of this in John Jr.'s makeup. The Corn Case seemed to increase John Jr.'s stubbornness. His friends sensed this; one of those ubiquitous poems was read at a private party on his 50th birthday in 1945; it included these stanzas on the Corn Case and its aftereffects:

But trees, grain, marriage, golf and tennis,
Lost excitement in time as sport—
Said John, rubbing his palms in anticipation,
"I'm going to wrestle with the boys who are short."

So, in due course, he turned to Chicago,
A village located in the Middle West;
While John was involved in a corner,
They tried to steal his pants, coat and vest.

But you can't say John isn't a fighter,
He doesn't quit as easy as you might think;
Armed with Marian and fourteen attorneys,
He caused the Exchange in Chi quite a stink!

The battle ground was shifted to Washington,
Both sides argued long before the bar;
But at that bar John couldn't get Martinis,
Said John, "Another fault of F.D.R."

. . . .

But quick-on-the-trigger MacMillan,
Some hair lost butting against a stone wall,
Returned to Minneapolis and Cargill,
Still admitting he had a lot on the ball.[58]

Thus, for a host of reasons, the Corn Case was paradoxical for Cargill—and for John MacMillan, Jr. It was a massive learning experience for a great many people, including most of Cargill's top management. Whether this included John Jr. is conjectural.

CHAPTER THIRTEEN

Transportation in the 1930s

Franklin Roosevelt, while still governor of New York, personally dedicated the new Albany deep-water port on June 7, 1932. Although Cargill's new terminal was not quite finished, Company officials were invited for "their" opening, too. John Jr. was urged to come but could not. In a coincidence probably not overlooked by some people, B. J. Bolan, the manager of Cargill's Montreal office, was the senior Company representative present.

Many people connected with Montreal shipping felt quite threatened by the new Albany deep-water port. So too did other communities along the water route to the St. Lawrence, particularly Buffalo. It was noteworthy that Governor Roosevelt had chosen to be present. Undoubtedly he must have been influenced by the immediate economic situation, as his speech particularly emphasized the employment-enhancing features of the port. It was "well planned and properly financed," he averred—and it used no tax monies, either! As to its "warehouses and elevators," he continued, "instead of being an annual expense to the State Government [they would] be paid for by the actual users . . . and paid for over a period of years, as is wholly proper."

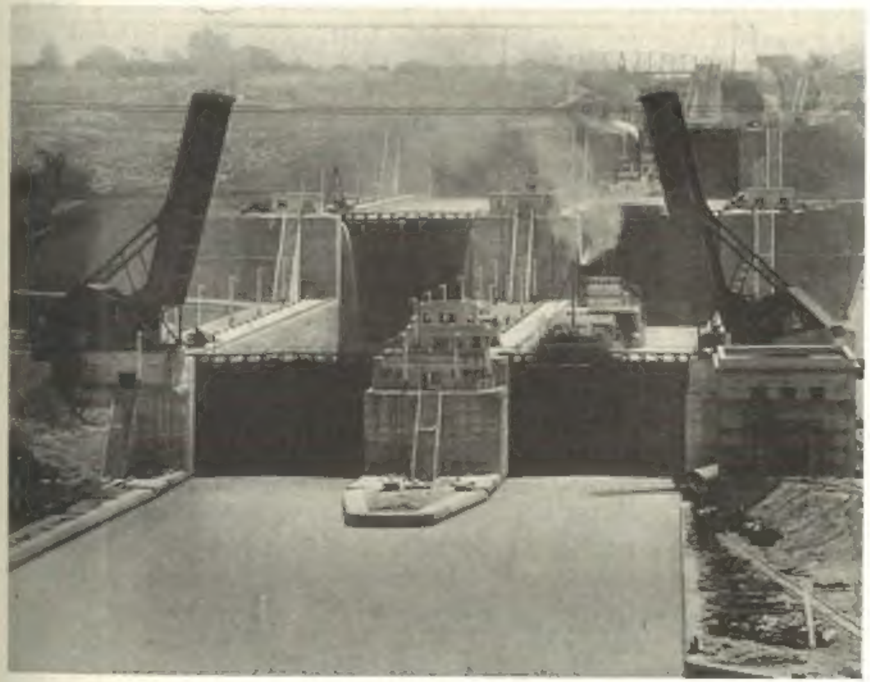
The momentousness of a new deep-water port on the Eastern Seaboard was not lost on anyone. As a final ceremony, a "wedding of the waters" was carried out when separate flasks of water from an even 100 different ports of the world were mixed with the water of the new port, as the *New York Times* put it, "to symbolize its link with the seven seas."[1]

In the following days, the effect of the Albany development became more evident. The *Montreal Gazette* noted that many worried that this might mean "the beginning of the end of Montreal's leadership as an ocean port, particularly as a grain port, on this continent," but the editor downplayed these views as "florid speeches." After all, Montreal was nearer to Liverpool than New York by 382 statute miles, and Albany was

an additional 525 statute miles farther away. The channel to Montreal up the St. Lawrence had a depth of 35 feet; Albany had a depth of just 27 feet. Further,

> . . . we have more water in our canals than has the Erie Canal, either from Buffalo or Oswego; the Canadian canals have a depth of 14 feet, Erie Canal but 12 feet. We have less actual canal mileage and lockage. Erie Canal is 357 miles from Buffalo to Troy with 35 locks; Oswego section is 188.5 miles to Troy, with 30 locks while St. Lawrence canals, Welland Canal being already deepened and therefore excluded, are 45.49 miles, with 22 locks. Ocean steamers of small size can make use of our waterway while only barges, and then limited, can use the Erie and Oswego canals.[2]

The old Erie Canal had been quite limited; at the turn of the century it had fallen into disuse because of its shallow draft and small lock size. In 1899, Theodore Roosevelt, then governor of New York, appointed a commission to upgrade the whole canal. It took two decades for action, but in 1918 a new "New York State Barge Canal" was opened, utilizing most but not all of the old Erie Canal route. It had three branches from Troy/Albany—one to Buffalo, another northward to Lake Champlain and a third branching off to Oswego, on Lake Ontario. While still "limited" (accord-



Locks 4, 5 and 6 on the Welland Ship Canal, 1931.

ing to the Montreal editor), it could accommodate barge and towboat combinations up to 300 feet, and there was a 12-foot draft throughout. From that time, the system was officially the New York State Barge Canal, but the whole system still was called by most people simply "the Erie Canal" (and in this book I will do the same).

By the 1920s, an increasing volume of grain moved through the Erie Canal down to New York—over 20 million bushels in 1923 rising to 40 million bushels in 1928. The grain moving through the St. Lawrence canals in this same period was considerably greater—over 89 million bushels in 1923 and up to 184 million in 1928 (the highest year until then for both the Erie and the St. Lawrence canals).[3]

In 1932, the same year that Cargill's Albany terminal opened, there was another important change in canal transportation in the Great Lakes arena: the renovated Welland Canal opened. It brought an order-of-magnitude difference, as now there were only eight Welland locks and the draft throughout had been deepened to 30 feet.

Still, large lakers could not ply all the way to Montreal because there were rapids upstream from Montreal (in the Thousand Islands section) that still provided a bottleneck for the large ships. This was to be the last link to be completed for a "St. Lawrence Seaway." As early as 1895, the project had been discussed jointly between Canada and the United States, yet it was still in limbo, mostly due to the hostility of certain Atlantic port interests in the United States. In 1932, at least, the St. Lawrence Seaway was still only a dream.

The Welland Canal improvement did have a vital effect, however, for it allowed larger lakers to go through the Canal, traverse Lake Ontario and move into the St. Lawrence to ports connected to rail lines for shipment to Montreal and Boston (Kingston and Prescott, Ontario, and Ogdensburg, New York, being the most important). Offloading into smaller boats at these ports was also a possibility.

Oswego, New York, on the southern shore of Lake Ontario, long had been a port connected by the Erie Canal to the Hudson River and on to New York City. Barging via this route before the upgrading of Welland was not as attractive. However, with larger lakers calling, the situation changed markedly, for Oswego was only some 188 miles from the Hudson at Albany, and oceangoing ships could now proceed to Albany. The Erie barge canal also extended westward all the way to Buffalo, although this was 357 miles. So it was not just Montreal that felt uneasy; so did Buffalo.

The Harbor Commissioner of Montreal, visiting the Albany port facilities after the inauguration, felt otherwise: "It will be a threat to New York," he stated. "Albany has laid claim to a grain elevator of 13,000,000 bushels capacity," he continued, "but we discovered that she has bin storage for no more than 5,000,000 bushels. The remaining space, capable of accommodating 8,000,000 bushels, is ordinary storage for any commodity whatsoever, . . . it might even be used for cattle, sheep, goats or pigs." In other words, he concluded, "it was just an ordinary warehouse."[4] The Harbor Commissioner was wrong. He was misled by John Jr.'s new terminal configuration with flat storage—the "big bins"—which would indeed hold 13,000,000 bushels.

Right from the opening of its Albany terminal, Cargill funneled most of its eastward shipments in the ice-free months through the Erie Canal, rather than by rail. The slowness of the barge movement was offset by the lower rate. By November 1932, there were as many as 33 barges arriving per day to be unloaded at the terminal. Incidentally, high water from heavy rains in the previous month had made shipping difficult because the water was so high that barges could not get under the many bridges that crossed the canal. Barge unloading at the Albany terminal was facilitated by an innovative adaptation by Frank Neilson of a European version of a pneumatic unloading device. The sucking nozzles were arranged in such a fashion that alternate use could keep a boat or barge on an even keel while unloading.

Grain Transportation Patterns

In the vast system of grain flow that had been developed in the United States and Canada by this time, an incredible array of choices was available. To begin with, grain could go either east, south or west. By the early 1930s, Canada had a highly developed westward-moving flow by rail to its British Columbia terminals and typically on to Asian ports (although grain also could be shipped through the Panama Canal to the Atlantic and the Gulf). Westward movement of United States grains was not quite as well developed, because the traditional movement had been eastward to the Atlantic, with some also going south to the Gulf.

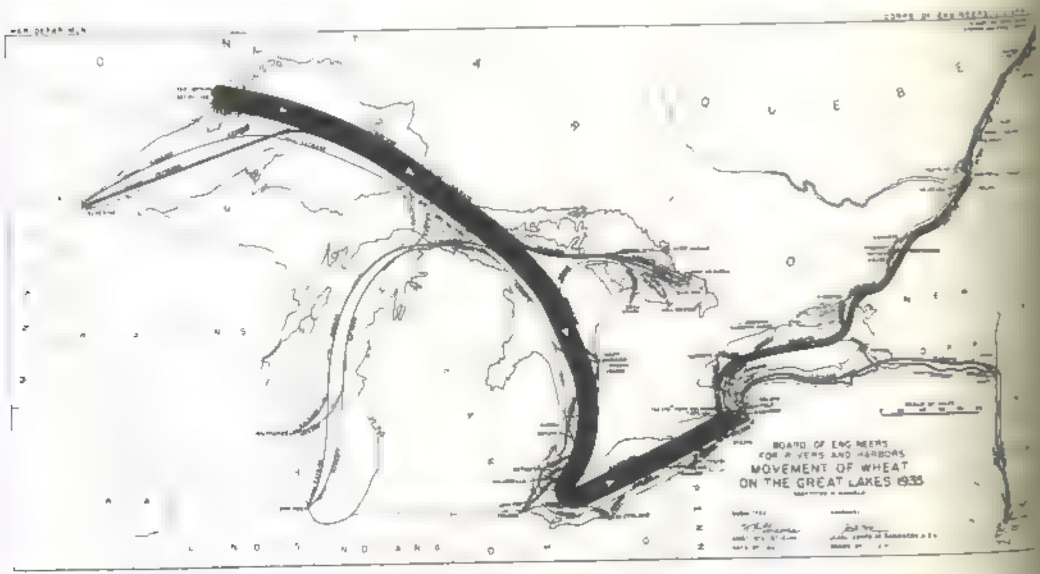
Eastward and southward, the matrix of alternative choices was considerably more complicated. Here, by the 1920s, combinations of rail, river, lake, canal and a newcomer, the truck, could be used in a variety of combinations. The linchpin was cost—an "opportunity cost" calculation of a freight rate and the time that the transportation took. Weather, too—droughts, winter ice and floods especially—often was a further complication. The rate was the key because each competing transporter quoted separate rates that the shipper could choose.

There was a complicating factor for these rates, inasmuch as the rails had been highly regulated by the Interstate Commerce Commission (ICC) since 1887, while the other three were largely unregulated. (All three *were* under the purview of the Federal Trade Commission for any collusive

behavior). Later the Motor Carrier Act of 1935 and the Transportation Act of 1940 brought regulation to truckers and the domestic water carriers.

Ed Grimes acknowledged the frustration of the railroaders about their regulated status in a speech he gave at a convention of the New York State Waterways Association in September 1932. After extolling the virtues of waterways, particularly the Erie system, he ended: "I have only sympathy for the railroads . . . shackled by regulation, threatened and intimidated by competing markets and localities." John Sr. took a more active posture, writing his old friend C. T. Jaffray, then president of the "Soo Line" Railroad: "Railroad rates must come down to a pre-war basis because commodity prices are back to that basis. Railroad rates are subject to the same laws and economic law will in the end govern. I hope the railroads will see the handwriting on the wall . . . so that they can conform to economic law rather than attempt to fight it."[5]

Because the potential for having one's commercial advantage destroyed—one shipping point (a town) losing out to another because a rate elsewhere was lower—the ICC long had adhered to the concept of "proportional rates." The Federal Trade Commission had put this succinctly in 1923 in the "grain trade" hearings: "The 'proportional rate' was devised to equalize rates for shipment via one gateway as compared with existing through rates via another gateway."[6] Railroad rates, evolved through a labyrinthine process and changed frequently, were then pitted against the



Movement of wheat on the Great Lakes, 1935.

other three, in a flurry of highly competitive parries and thrusts by the other three, less-regulated groups.

Even a brief review of the key combinations for alternative routing immediately turns up some knotty competitive questions. To begin with, there are two countries involved, the United States and Canada. There always has been a certain amount of chauvinism between these two friendly neighbors. Many people on both sides of the national boundary advocated keeping maximum control within their own borders. Better "all-American" said the Statesiders; better "all-Canadian" replied their counterparts to the north.

Take the case of Canadian grain first. Most of its eastward grain would be put on a laker at the Canadian ports of Fort William and Port Arthur on Thunder Bay on the north shore of Lake Superior. Some of this grain might be unloaded at Canadian ports on Georgian Bay or Lake Huron, to go forward by rail to Montreal. Most of the grain, however, would continue on through the Great Lakes and would stay all-Canadian all the way by being loaded on smaller boats adapted to navigation through the Welland Canal, itself on Canadian soil, and then sent through to Montreal either by the smaller boat or by a Canadian rail line. Another frequently used routing for Canadian grain was through a Lake Erie port, typically Buffalo, where it might be milled into flour. If the flour was for United States consumption, a duty of 42 cents per bushel of wheat had to be paid. If it was for international sale it could be reloaded under "milling-in-transit" privileges and escape the duty. Alternatively, it could go forward as wheat into the international chain by way of a United States or Canadian rail or canal route; foreign grain at this time could escape duty if it was stored in bond and reexported within 10 months.[7]

Eastward-moving United States grain, in turn, might move from its point of origin in the Midwest to the end-user by rail or go to one of the Lake Michigan or Lake Superior ports (particularly, Chicago, Milwaukee and Duluth/Superior). If by water, the laker might drop its grain at a western Lake Erie port or, more likely, at Buffalo. Or, as in the Canadian example, there might be transshipment by smaller boats through the Welland Canal to a Lake Ontario port such as Oswego or even the St. Lawrence River American-side port of Ogdensburg. Still, this was not "all-American," inasmuch as the Welland Canal was Canadian. In past years, there had been efforts toward an all-American route to tidewater for laker-size shipping, generally proposed to follow the Oswego–Hudson River route. However, from Lake Ontario to the highest point of the canal is a climb of 174 feet, with a drop then of 420 feet to the sea. Large, numerous locks would have been required, not to mention the many bridge relocations necessary in this populated area. The *Wheat Studies* editors reported in 1932: "According to engineering estimates, the cost of construction would

be heavier than that of the St. Lawrence Seaway and would be carried by the United States alone, and not offset by any considerable power earnings. The sentimental argument that it would be an all-American waterway may be dismissed as irrelevant; in any event, if the Welland Canal were used to pass from Lake Erie to Lake Ontario, there would still be a Canadian part of the route. . . It is therefore proper to say that the all-American canal is of historic interest only."[8]

In the late summer of 1932, an unexpected new development intruded into the Canadian–American trade relationship. Canada's farmers had been hard hit by the depression, and they began agitating as early as the Imperial Conference in 1930 for special privilege for Commonwealth countries in their exporting to the United Kingdom. They failed to get it in 1930, but when Canadian premier R. B. Bennett invited the members of the Commonwealth to an economic conference in Ottawa in the summer of 1932, Great Britain surprised many people by agreeing to a levy of two shillings per "quarter" (480 pounds, or eight bushels) for any grain imported from a non-Commonwealth country. It was a "radical extension," said the *Wheat Studies* editors, and was a particular shock to the United States grain trade. Canada gained a major preference, approximately 6

The Cargill system for Great Lakes shipment of grain, including non-Cargill Canadian connections, mid-1930s.

TABLE 1

Exports of Grain in Millions of Bushels, 1929–35[10]

	1929	1930	1931	1932	1933	1934	1935
American grain							
Via north Atlantic ports	9	5	18	32	2	0.2	0
Via St. Lawrence ports	38	19	8	10	2	0.4	0
TOTAL	47	24	26	42	4	0.6	0
Canadian grain							
Via north Atlantic ports	87	66	62	32	25	30.8	21
Via St. Lawrence ports	72	66	94	121	87	60.6	60
TOTAL	159	132	156	153	112	91.4	81
Total American and Canadian grain							
Via north Atlantic ports	96	71	80	64	27	31	21
Via St. Lawrence ports	110	85	102	131	89	61	60
GRAIN TOTAL	206	156	182	195	116	92	81

cents per bushel, over the United States for its hard wheat, and Australia gained the same for its soft wheat.

Canada's preference remained in force for only six years. In 1938, it was removed in a major trade agreement between the United States and Canada. But for those half dozen years, the effect was substantial. Far less Canadian grain came through American ports, for to gain the preference the grain had to move from the country of origin to Great Britain by direct voyage. The volume of American exports declined precipitously (there were other causes, too—for example, the drought in the period 1934–1936).[9]

To put the quantities involved in perspective, the shipments during the seven years 1929–1935 were as shown in table 1.

Rate Battles—Oswego and Ogdensburg

The improvements at the Welland Canal allowed either offloading at Oswego for barge shipment by the Erie Canal to Albany, or sending the laker on to Ogdensburg for rail shipment into New England. Now the availability of Cargill's huge 13.5-million-bushel Albany terminal for storage altered the rate system. John Jr. commented to B. J. Bolan, the Cargill Montreal manager: "The opening of the Welland Canal and the deepening of the Hudson River to Albany have thrown the Eastern rail rate structure into a turmoil and it is hard to see what the ultimate outcome will be." Certainly, John Jr. sensed trouble when he read a Buffalo paper's story on this: "The Cargill Grain Company by going to Albany has aroused intense

opposition . . . threats have been made that everything possible will be done to check this development."

John Jr. and Ed Grimes then began a delicate bargaining act that pitted existing rates against the exploitation of alternative choices for physically moving and storing grain. Cargill wanted, first, to enhance the water route to Albany via the Erie Canal and the Hudson River water route to New York. Rates quoted by the bargers on the Canal had fallen substantially in the period since the Great Crash. Grain in 1932 went from the Head-of-the-Lakes and from Chicago and Milwaukee all the way to Montreal at rates as low as 3 cents per bushel and to New York for as low as 3½ cents per bushel. Indeed, in early 1932, Grimes had been offered a boat from Lake Michigan to Oswego at 1¾ cents per bushel Rates did have a strong seasonal pattern, however; in times of port congestion, say at Buffalo, when turnaround times were longer, rates tended to rise. In one of Cargill's ICC cases, the commissioners chronicled the pattern of wheat rates per bushel from Fort William and Port Arthur, Canada (the Canadian Head-of-the-Lakes), to St. Lawrence ports from 1929 through 1933. In that five-year period, overall rates had dropped from a weighted average for the 1929 season of 8.6 cents to 3.9 cents in 1933 (the lowest quotation that year was 2.25 cents)[11]

With competition among bargers for business so keen, Cargill ostensibly had no worries about shipping costs. Yet it was also important to keep the bargers going. If the rates deteriorated too much, these small operators would be driven out of business. In contrast to railroads, "abandonment" would be at their own (or their banks') discretion. The railroads had to petition the ICC if they wished to abandon a particular line because of unprofitable business.

Not all of Cargill's shipping needs could be met by the canal. Weather problems or congestion could intrude, and the Company needed rail rates from Buffalo into New York City that would also match costs on other routes used by Cargill's competitors. As there was no Erie Canal connection from Ogdensburg—"the 'Burg," as it was fondly called—favorable rail rates eastward into New England also would be necessary, since the Welland Canal improvement now allowed larger boats to dock at Cargill's terminal there.

A first step was getting a competitive rail rate to New York City from both Buffalo and Oswego. The New York Central Railroad served both cities, and Cargill proceeded to press for lower rates. The initial proposal by the New York Central, as described to the Albany Port District Commission chairman by John Jr., was "one of the most outrageous and iniquitous proposals which we have ever experienced." John Jr. talked with a New York City barge company about the New York Central

> They [the railroad] have intimated that they did not care to develop Oswego and Albany unless they figured that there was a chance of their competing with the Erie Canal. . Our analysis indicates to us that if the New York Central did so and endeavored actively to compete with the Canal, the Hudson River outlet would have a boom which would be almost inconceivably great In fact we estimate that instead of shipping 75 million to 150 million bushels per year from the Hudson River it is possible that this amount could be increased to 500 million, practically all of which would be handled through Albany

Inasmuch as the Delaware & Hudson Railroad also served the same two areas, John Jr and Ed Grimes set one road against the other. The Delaware & Hudson seemed receptive but made no rate concession. Then Grimes wrote the head of traffic at the New York Central: "I am extremely discouraged about this whole matter of trying to work out rates with your railroad and I have just about come to the conclusion that probably the best thing for us to do is to immediately file a case with the Interstate Commerce Commission " The Company already had decided to use trucks for some of its deliveries to New York and New England customers. Trucks were, of course, anathema to the railroads. Grimes knew this and sent a moderately worded warning to the New York Central officer, citing a long list of customers receiving grain from Cargill via truck and ending his letter. "I believe you could reclaim most of this truck business out of Albany on your line if you published local rates similar to the rates you have out of Buffalo on a mileage basis."[12]

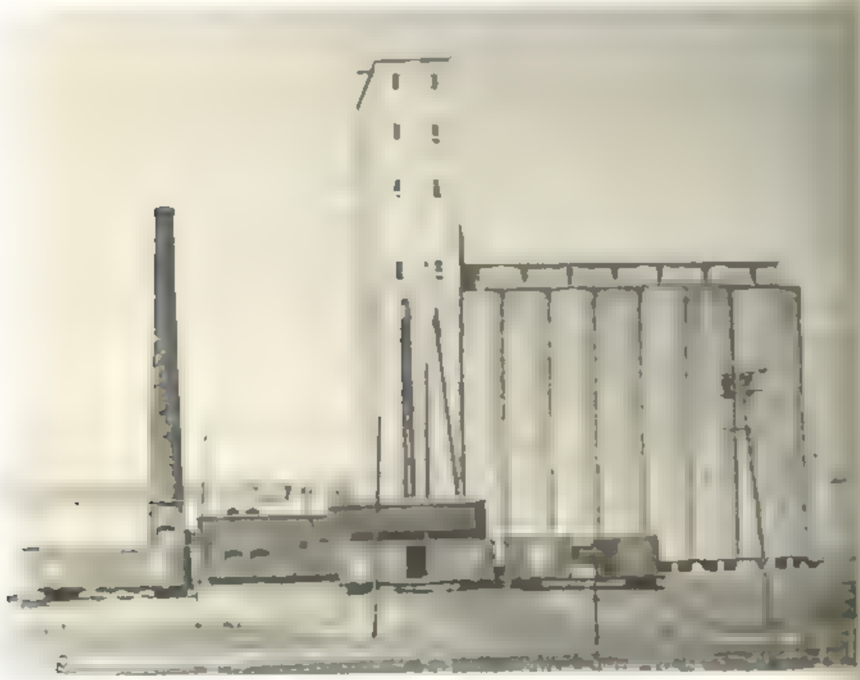
The problem with the Ogdensburg rates into New England seemed equally intractable The Rutland Railroad, the owner of Cargill's leased Ogdensburg terminal, had the first small railroad leg into New England, but most of the trackage was that of the Central of Vermont, the Boston & Maine and the old foe, the New York Central. Here too, Cargill felt that it had to have lower rates to be competitive and inveighed against all three of these railroads—but to no avail. John Jr., quite upset by this, wrote his father once again about an appeal to the ICC, and ended. "It seems obvious that we have got to fight and fight vigorously unless we are to lose our commanding position in New England "

John Jr. was particularly adept at notions involving the positioning of the Company in a geographic context. Now he thought of an unconventional solution to the New England problem, elaborating a plan to his father that would "embarrass the railroads to a point where I think we can drive them into line." He had found some idle Portland, Maine, warehouses and also located ocean boats "in good running condition at unbelievably low figures . . . we had one offer on a boat which would carry 175,000 bushels of corn for $10,000, and it looks as though $7,500 would buy it." The plan involved filling the boat with grain at Albany and sending it to Portland, "where we would discharge the crew, and peddle our

grain by truck. Whenever the boat was empty we would pick up a crew at Portland for a round trip to Albany and back, and be ready again for business in a week." John Jr. estimated that "we could deliver to Portland bakeries at 5¢ a bushel under what it costs them today by rail."[13]

Weeks went by with no results on the Albany–Oswego–Buffalo rate battle; Ed Grimes even wrote the New York Central traffic manager once more about the trucks: "If you cannot see your way clear to make anything better than a 3¢ differential and that is your final decision, we will have to meet the situation the best we can . . . if there is a diversion of freight from the railroads because of the seemingly unsound difference, I hope that the railroads will not take me to task because of this loss of traffic."

The Delaware & Hudson then edged forward with some compromise proposals. These leaked into the public press, with the *Albany Evening News* carrying a banner headline, "Grain Rates Cut to Boom Port," adding that it was "expected to be followed by similar action by the Central." The Delaware & Hudson traffic manager, outraged at the leak, wrote Grimes: "It seems to me very undesirable to have rates that we established featured in this manner in the public press. We have already received wires from the



Cargill's Ogdensburg, New York, elevator.

Buffalo grain interests, no doubt prompted by the newspaper articles in question."

The culprit on the news leak was Grimes himself. He wrote back: "The reporter that I talked to was from the *Times Union* and I was much surprised to note that night an article on the rates, which was so badly garbled as to the facts that I thought probably it would do very little harm. . . . I am exceedingly sorry if my talking to these reporters has resulted in any embarrassment to you." Grimes probably did this deliberately to prevent Delaware & Hudson from changing its mind—this letter certainly implies such a strategy.[14]

Eventually, the New York Central made grudging adjustments, matching the Delaware & Hudson offer. For the moment, Cargill decided to live with the rates, shelving the unusual Portland, Maine, proposal John Jr. had suggested to his father. Ed Grimes now did a turnabout, writing the Delaware & Hudson traffic head: "I want to assure you that the Albany office has very definite instructions to promote movement by rail over your line in every single instance where there is any possible chance for the use of rail facilities, and there will be no deviation from this policy."[15]

The Ogdensburg case was not so readily resolved, and the situation dragged on into 1934. Railroads throughout the country had difficulty in the depression maintaining even minimum profitability and in January 1932 had entered into agreements, country-wide, bringing about a wage reduction of 10 percent. These were to be phased out, beginning in mid-1934, with full restoration of the original wage scale by April 1, 1935. Faced with these heightened costs of operation, the railroads in many sections of the country now petitioned the ICC for rate increases. One of these was on the Ogdensburg–New England rate. Cargill earlier had succeeded in getting a favorable rail rate out of "the 'Burg" on the grounds that its port was more difficult to use. So its rate was 4.69 cents per bushel below the rate from Buffalo, while Oswego had a rate only 1½ cents below Buffalo. The railroads into New England also lowered the Ogdensburg differential to 1½ cents, contending that the two towns, Oswego and Ogdensburg, were essentially equivalent and the port at Ogdensburg had been improved. In March 1935, the ICC commissioners sided with the railroads.[16]

Taking heart from a dissenting opinion in this case, the Company decided to ask for a rehearing. To the surprise of almost everyone, the ICC Commission on Reargument reversed the commissioners, setting forth new reasoning. The Commission pointed out that the 1½-cent Oswego differential, established in a case back in 1926, was only for corn to be exported; inasmuch as Cargill's shipments into New England were all domestic, a 2½-cent differential for Ogdensburg was more proper. It was half-a-loaf for Cargill but certainly a welcome competitive gain.

Once more, there was a vigorous dissent, by Commissioner B. H.

Meyer. He asked, "If we make a shift at Oswego, how can we stop there and not do something as between Buffalo and Erie, and in that manner continue indefinitely up the Great Lakes?"[17]

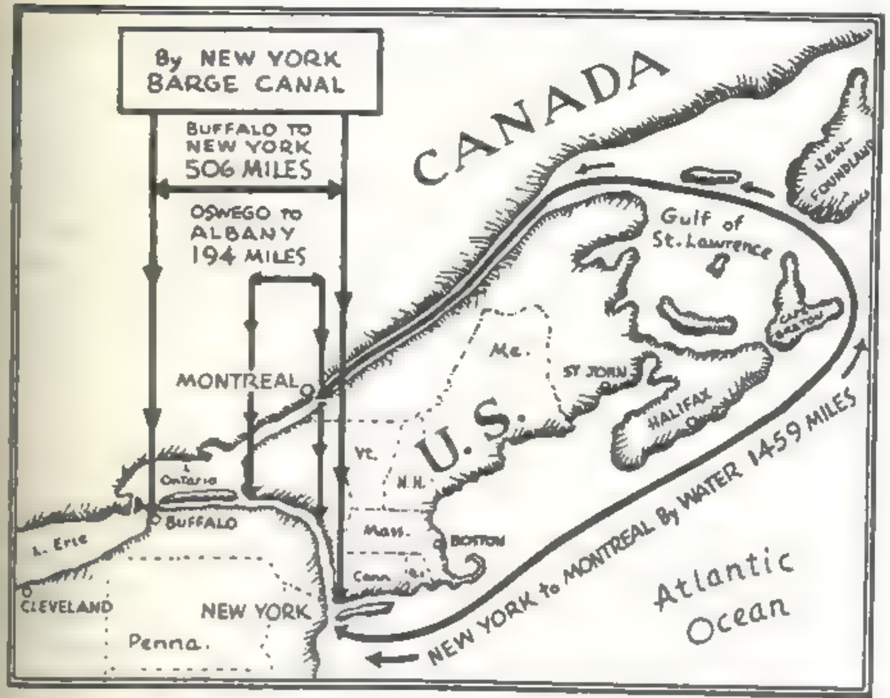
Seaways and Canals

The St. Lawrence Seaway debate meanwhile became heated. The remaining constraint, a serious one, was in the "international rapids" section of the St. Lawrence. In 1895, the United States Congress had authorized a Deep Waterways Commission, and Presidents Theodore Roosevelt and William Howard Taft also pushed strongly in the first decade of the twentieth century for completion of the Seaway. Despite good intentions, however, the notion was very much in limbo in the early 1930s. The equivocating—mostly on the United States side—came from the competitive rate-making battle described above. If one's route was competitively effective, any dabbling in this by introducing new equations like the Albany Deepwater Port was threatening.

Cargill itself had a change in heart about the Seaway. Earlier, John MacMillan Sr. had ardently supported the plan. For example, in October 1920, he had written a Minneapolis business friend: "The early completion of this Deep-Waterway-to-the-Sea project is essential to business throughout the Northwest and Southwest." At that time, John Sr. saw the waterway as a chance to hold down rail rates.

While John Sr.'s optimism about railroad cooperation was misplaced, it was easy to see why he would support the St. Lawrence Seaway at that time, given the high transportation rates then in effect. By the early 1930s, with the precipitous fall in rates, many people, Cargill executives included, felt that the major cost of a Seaway project was not warranted. John Jr. wrote the chairman of the Albany Port: "We are now chartering space for Western Lake Ports to Montreal for the record breaking price of 4¢ per bushel. . . . It would not warrant any capital expenditures by the government to cheapen further the cost of moving grain from the Great Lakes to the sea." John Sr., writing a friend later in that year, estimated that "the St. Lawrence Seaway cannot possibly be justified . . . the total saving . . . would not exceed more than 1¢ or 2¢ per bushel." (Actually, this would be a substantial saving; as the Corps of Engineers' book *Transportation on the Great Lakes* (1937) put it, "It is well known that a saving of as little as one-fourth cent per bushel will serve to divert substantial movements of grain.")

It was not just the economics of Seaway construction that motivated Cargill to oppose it so vehemently, for now there was the presence of John Jr.'s brainchild, the Albany terminal. So the Company had a much-heightened vested interest in the flow of export grain through the Atlantic ports,



A pro-Erie Canal (and anti St. Lawrence Seaway) map, mid-1930s (Francis P. Kimball, *New York the Canal State*)

in particular the Albany–Hudson River–New York City route. The shipments by laker to Oswego and then by canalers from Oswego to Albany enhanced Cargill's use of the Albany terminal and was quite cost-effective for ocean shipping. If the St. Lawrence Seaway were to become a reality, Albany would be less desirable, and a Cargill terminal point beyond Ogdensburg might be necessary. Indeed, when the Seaway did open in 1958, Cargill built a huge terminal at Baie Comeau, Quebec, far out in the mouth of the St. Lawrence.

John Jr. skirted Cargill's self-interest when he discussed the St. Lawrence proposal with Marcus Marshall, the Albany manager:

> New York and other North Atlantic states have aggressively opposed the construction of the greater St Lawrence seaway, while the Middle West, generally, has supported the project Some mid Western people, like ourselves, have conscientiously opposed the St Lawrence seaway in the sincere belief that in the interest of national unity and in the interest of procuring dependable low-cost transportation between the Middle West and the East, support should go toward the development of an all-American waterway, composed of the Great Lakes and connected Eastern United States waterways.[18]

The refurbishing of the Welland Canal in 1932 also stimulated other efforts on waterways in the country, notably those relating to the Mississippi River system. Bills had already been introduced into Congress for spending large sums on deepening the upper Mississippi channel. Cargill opposed this, as it did other expenditures for the Mississippi. This was succinctly put by Ed Grimes in May 1932, when he wrote a Minneapolis businessman: "In my opinion the River never will be able to successfully compete with the Great Lakes on grain. At the present time the rate Duluth to Montreal on wheat is 4¢ per bu., less than one-half the river rate Minneapolis to New Orleans." Grimes concluded with a prediction that subsequently turned out to be quite mistaken: "Grain and flour tonnage for export or domestic shipment will never be available in volume for the River, should it be completed."[19]

Trucking, and Backhaul Problems

The ferment in Cargill's eastern markets, exacerbated by what the Company felt were unfairly high transportation rates to New England out of Ogdensburg, had continued unrelieved. Throughout the war with the railroads in 1933 and 1934, Cargill had utilized common-carrier trucking to supplement its rail shipments. Then, when the adverse decision of the ICC on the Company's Ogdensburg rate case was announced in March 1935, Cargill moved to establish its own trucking fleet. Trucks were a new feature for grain companies, as they provided flexible delivery patterns that not only served customers well but also put great pressure on railroads for rate concessions. Yet the truck also gave the farmer more choices in delivering his grain to market. Formerly, farmers were limited in the area they could draw upon for delivery of their grain to elevators Historically, with the horse and buggy this was just a few miles. By the 1930s farmers were buying the larger grain trucks for their own use and could deliver their grain efficiently and at low cost to any number of elevators all around them.

Early trucking efforts at Cargill's Albany terminal. late 1930s

Thus, the grain companies faced some difficult decisions about elevator size and their geographic placement. Instead of a string of country elevators along railway lines, in many areas of grain country it soon made more sense for grain-trading organizations to build larger subterminals at strategic locations, both to have farmers' trucks come to them and for themselves to truck to rail, water or mill.[20]

At the start Cargill confined its new truck fleet to Albany, for shipment to other New York and New England locations. There were difficult backhaul problems here, for the natural movement of trade was from Albany and Ogdensburg to the east, and westbound loads were difficult to find. Traffic managers for rail, barge, truck, boat and air shipments alike always strive to have their carriers fully loaded at all times. In many cases this was difficult to do, as the natural flow for the goods being moved often leans strongly in one direction (e.g., grain shipments from the Midwest to eastern ports or the eastward flow of transatlantic air flights from the United States at the beginning of the summer tourist season). Hence, finding return loads for the transporting vehicle—its backhaul—becomes a challenge For example, Cargill tried to develop westbound traffic with a Chicopee Falls, Massachusetts, rubber tire manufacturing company; this was difficult freight on which to develop long-term contracts. Backhaul continued to plague the Company The central purpose of the trucking, however, to move Cargill's freight eastward, was a considerable success.[21]

Terminals—Albany and Other Sites

John Jr., seeking new ways of physically and geographically improving the Company, soon broached other innovative approaches to his colleagues. After the adverse ICC decision in the Ogdensburg case in March 1935, the impetus for an East Coast terminal increased. John Jr. cleverly linked this to a set of bargaining chips with the Albany Port District group. The Albany Port District's success began to persuade other businesses to look at properties in the Commission's port areas. One such property was next to Cargill. Back in 1932, John Jr. had stalled a Commission effort to bring in a competitive elevator by stating to its chairman: "Within a very short time we will wish to double the storage capacity of this plant. . . . If we are unable to build alongside it would then be necessary to duplicate the handling facilities elsewhere." In April 1935, John Jr. again tried to forestall competition, threatening the chairman about his Atlantic terminal plan: "We are well aware that you are under constant pressure to allocate . . space to other industries. By so doing, however, you would definitely block further expansion of the elevator and we would probably be forced to build our storage at some other port, probably Newark, which would be undesirable both for us and for you."[22]

The truth was, of course, that John Jr. already was actively contemplating terminals at other locations, Newark most especially but also Providence, New Haven and Hartford. He wrote Grimes: "Frank has designed a very inexpensive house, not unlike a country elevator, which promises very cheap operation." John Jr. spelled this out in a letter to his father: "Studies indicate 18 plants could probably do about 36 million bushels of business by truck distribution along the seaboard, and I think we will need each and every one of these 18 plants before very long. It will require some 70 odd trucks to distribute this volume of business." He warned: "We really are in a very precarious situation . . . if someone else went in with these plants we would lose a very large part of our eastern business." Many rumors were circulating at that time that Continental Grain was planning further East Coast expansion. The very mention that "Continental might beat us to ——" (fill in almost any logical choice) seemed always to generate an instant response. Indeed, some Cargill people thought that John Jr. deliberately was using Continental as a bogeyman on occasion.[23]

John Jr.'s strategy was a complicated one: If Cargill's Albany terminal could not get competitive rail rates for delivery to customers in New England and the Middle Atlantic states, then these customers could be served by truck out of several smaller terminals at various East Coast ports. Cargill's own shipping (and other charters) could then supply these subterminals by going down the Hudson and into the Atlantic to the ports from which Cargill's trucks at the subterminals would deliver. In effect, the plan was another logical extension of John Jr.'s notion of the endless belt.

The movement of wheat and corn through the St. Lawrence and Erie canals for the years 1932–1935 are show in table 2.[24]

A comparison of the major North Atlantic ports compared in total receipts of grain in 1935 is outlined in table 3.[25]

Any such Cargill expansion would require financing, and John Jr. explained this to one of the Company's New York bankers: "The grain handling facilities that we have in mind would be elevators of a type larger than a country elevator but smaller than a terminal elevator. . . . Each would cost, we believe, in the neighborhood of $50,000." Further, not

TABLE 2

	Via St Lawrence Canals (in 1,000 bu)		Via the Erie Canal to New York (in 1,000 bu)	
	Wheat	Corn	Wheat	Corn
1932	90,363	4,974	22,840	2,367
1933	89,347	2,369	15,240	2,850
1934	53,101	2,746	15,290	2,823
1935	49,160	7,487	12,353	24

TABLE 3

	Receipts (in 1,000 bu.)		
	By rail	By water	Total
Baltimore	4,938	3,739	8,677
Philadelphia	3,913	4,324	8,237
New York City*	6,529	22,403	28,932
Boston	1,299	3,097	4,396
Portland, Maine	N A	N A.	6,961
St John	6,362	245	6,607
Quebec	63	3,401	3,464
Montreal	6,481	61,894	68,375

*Includes Albany shipments.

just terminals alone would be needed: "The establishment of such units would materially increase the traffic on the Barge Canal and Cargill would need to acquire additional canal equipment." John Jr. asked for "satisfactory financing arrangements," somewhere between $1 million and $2 million.[26]

On a broad front, the Company entered complex negotiations with the port authorities at various possible sites. Fred Drum, Weston Grimes, Frank Neilson and John Jr. fanned out to Boston, Providence, New Haven, Hartford, Newark and Weehawken, to Philadelphia and to Pittsburgh, seeking deals favorable to the Company. Cargill was willing to own some of the possible properties but preferred the port authorities to build, with a long-term lease to Cargill as in Albany.

Newark was the key. John Jr. explained to his brother Cargill: "If we are to make a success of our other seaboard plants, we need enough storage in Newark so that we can in a pinch supply them during January and February in case of ice." John Jr. contemplated a 2-million-bushel terminal there. For the other locations, he planned smaller operations, four-bin structures, each bin holding 100,000 bushels.

The Boston notion foundered early, since new terminals had been built there by the railroads. The largest elevator served Continental Grain Company. Negotiations in Newark did produce a serious proposal, but construction costs would have been high because substantial pilings had to be placed, so the Newark proposal also was scrubbed There were similar difficulties at the other locations. Thus the ambitious plan to plaster a whole set of New England and Middle Atlantic ports with Cargill-owned or -leased subterminals, with a larger feeder terminal at Newark, completely fell through, and the other tentative proposals were dropped. Once more, Cargill was thrown back to fighting rail rate battles as a mechanism for its distribution in the East.[27]

While the eventual favorable decision in the Ogdensburg rate case in July 1935 did provide Cargill a reasonable way to bring its grain into New England by rail, the competition from the two arch-rival grain trading companies, Louis Dreyfus and Continental Grain, required that the Company be alert to any innovations they might make. The aborted efforts to get an Atlantic port terminal left John Jr. with the urge to explore further intercoastal shipping.

There was one other terminal development in the East that came to fruition. Cargill already had its own terminal in Buffalo, having taken over the lease of the Canadian Pool elevator in 1932, when the changes that came out of the Ottawa conference made it less attractive for Canadian shippers to use Buffalo. Cargill had improved this property, and by the time of the negotiations with Newark and other East Coast centers, the Buffalo Pool terminal capacity was 1,900,000 bushels. Then, in 1936, the Company bought another Buffalo terminal, the "Great Eastern," acquiring an additional 1,900,000 bushels of capacity. Later in the 1930s, the Company purchased additional terminals in Buffalo, and the total Company capacity in Buffalo rose to over 11 million bushels. Buffalo proved to be an excellent location for training future senior management, Gordon Alexander and Irv Hyland, among others, being good examples.[28]

Ed Grimes had stated flatly in 1932 that the Mississippi River route was not going to be a realistic one for the grain trade. Perhaps he meant this merely as a bargaining gambit to puff up Albany, as the Mississippi was one of the great trade routes of the country and would be increasingly so for grain. Back as far as 1931, John Jr. had discussed a St. Louis terminal, and in early 1934 he revived this proposal. Public Works Administration funds were then available to cities for construction of new publicly owned terminals, and John Jr. conducted extensive negotiations with the mayor of St. Louis about a terminal there. John Jr. also contacted his longtime banking friend in St. Louis, Bert Lang. John Jr. proposed a plan modeled on the Omaha facility. The St. Louis version would have eight large bins of 1 million bushels each, together with some 75 small bins aggregating an additional 2 million bushels.

In the spring of 1935, the Memphis Harbor Commission also contacted John Jr. about a terminal. As Cargill already was involved in convoluted negotiations about a new Chicago terminal, John Jr. tried to hold off both the St. Louis and Memphis contingents. The Memphis group was more aggressive and soon pushed Cargill enough to persuade John Jr. that he needed to develop a proposal forthwith.

Perhaps it was the "squeaky wheel" principle, for the Memphis proposal moved to completion, and the St. Louis plan did not. The Memphis terminal, built by the Commission with Public Works Administration funds—Cargill's aversion to big government notwithstanding—was con-

Cargill's Electric Terminal Elevator, Buffalo.

Cargill's Great Eastern Terminal Elevator, Buffalo.

Cargill's Memphis terminal elevator, c. 1953.

siderably smaller than the Omaha terminal, although similar in function and appearance. The concept of the large bin was there, and its profile looked like the Omaha terminal. The location was ideal for water, rail and truck handling, and the terminal had a storage capacity of 1,650,000 bushels. In 1937, Cargill leased it on a long-term basis and put it in full operation.

Again, however, Cargill ran into competitive problems. Grimes described this to a colleague in Memphis: "I have started some discussions with the railroads with the objective [of] less of a penalty for water inbound grain. . . . I am hopeful of proving to the rail carriers that they will handle a very much larger volume of tonnage and receive substantially greater revenue if they will abandon the obsession that they have for discriminating against grain that moves into the port by water."

Although this Memphis terminal was small in terms of capacity, compared to other Company operations, it was critical in that it gave Cargill access to the South (the Memphis terminal was built primarily for domes-

tic, not export business). This Mississippi River–Gulf route for waterway shipment of grain later became much more important. In the 1960s, Cargill established "unit train" rail shipments southward to Gulf ports and these became a dominant feature of grain shipment abroad. The importance of the Memphis terminal for Cargill was far more than just its volume of shipment.[29]

Western Markets

Cargill was ambitious for a global reach but had not yet shipped much grain westward. Canada had increased shipments from its British Columbia ports since the late 1920s and from the crop year 1927–1928 through the crop year 1932–1933 sent an average of almost 80 million bushels of wheat per year through these ports. West Coast export shipments of United States–grown grain were considerably smaller by comparison. For example, the largest West Coast port for wheat exports was Portland, Oregon, which averaged only 12.6 million bushels per year for the years 1929–1933. San Francisco exported considerably less wheat but averaged 7.8 million bushels per year of barley sent abroad in this same time span.[30]

While there was not a strong increase in the shipments from the West Coast of the United States in the early 1930s, the Asian markets were becoming relatively more important. Further, in the mid-1930s, the Dust Bowl began to affect production in the Great Plains wheat fields, and shipping from the West Coast began to move through the Panama Canal for delivery to Gulf and Atlantic ports and to Europe. Western wheat could be delivered to some of the eastern states by ocean shipping at a price comparable to the wheat grown in the East.

Pushed by this development, Cargill opened a West Coast office at Portland in the spring of 1934. Prospects for wheat exports seemed good; and in April 1935, John Jr. wrote E. T. Pettersen, the Portland manager, of his interest in finding a West Coast terminal: "What we are seeking is a cheap way. . . . The idea of leases appeals to us because if our experience is not favorable . . . we can drop them and then build plants which our experience tells us would be suitable to our requirements." Pettersen turned up the possibility of leasing a West Seattle terminal, an old-style flat-storage building in which wheat had been bagged for export shipment. Substantial bagging of grain was still done at this time on the West Coast (indeed, a huge western crop just before World War II had brought a shortage of bags, and wheat had to be stored on the ground). Although this was not the ideal solution to Cargill's problem, the Company signed a lease and added the 770,000-bushel terminal. Cargill had also opened a San Francisco office in December 1934, first staffed by Fred Seed, who later rose to senior management in the Company. The two offices at Portland and San

Francisco, along with the West Seattle terminal, gave Cargill a more permanent West Coast presence in the trade.

Asian Markets

Once on the West Coast, Cargill made a series of new contacts, many with firms and countries with which the Company had had little experience. John Peterson helped with some of these, particularly those involving Japanese trading companies. He wrote Pettersen:

> In your dealings with these Japanese you must be very careful not to make any slip as to their authority. Out of my great experience with the Japanese I have found them to be a very loyal, friendly people, and these gentlemen that are sent to America to represent those great concerns like Mitsui & Company, Mitsubishi, etc., are all very high-class men. . . . In your dealings with them you will be safe in going ahead on the principle that anything you do with Mitsui & Company or Mitsubishi will be with very high grade people and entitled to high consideration. . . . They are in a way a formal lot, these Japanese, what with their bowing and scraping and the like of that. By all means be friendly with them, and if you act that way I am sure you will get into their good graces. Once established with them it is easy to work with them.[31]

Towboats, Barges, Boats

John Jr. and Cargill MacMillan had been "crazy about boats" since their early childhood. When Edna MacMillan took the two youngsters to Geneva in 1907, John Sr. wrote her: "Tell John I enjoyed his drawings so much. I hope both he and Cargill will keep it up. I would like to have them try other things than merely boats." Apparently this advice was not taken, for a few weeks later he wrote again: "This boat is very good. But I should like him to draw something else. Have him draw from real life—trees, houses, or anything that strikes his fancy and also from pictures. But I don't want them to confine themselves to boats."[32]

Once John Jr. began taking a major role at Cargill in the mid-1920s, his thoughts always had included the possibility that the Company would own and operate shipping. There was an important rationale for this, explained Cargill MacMillan in a letter in February 1937: "Hays and Julius are convinced that . . . we are going to be crucified on some of our charters . . . we must have some boats of our own to keep the boat owners honest."

As early as 1931, just a year after Cargo Carriers Incorporated (CCI) was formed as the transportation arm of the Company, John Jr. was dickering for "one, possibly two" boats for Great Lakes shipping, in the 200,000- to 250,000-bushel capacity. Nothing happened until 1935 when the steamer *Mayan* became available. Built in Toledo, Ohio, in 1919, it was just over 248 feet in length, with a beam of 44 feet and gross tonnage of 2,571. Cargill paid its owner, the Mitchell Steamship Corporation, $30,000 for the vessel. The *Mayan* was to be used as an intercoastal ship to move grain and other products, like coal, to and from Albany and Atlantic ports. In late September 1935, John Jr. personally inspected the vessel and wired Cargill MacMillan: "I think she is exactly what we require altho not much to look at. . . . They tell me the *Mayan* has a bad name account her former owners were deadbeats so we will have to change her name before we commission her. Think one up for us." But he couldn't, and the name stuck.

In December 1935, the *Mayan* made its maiden voyage under CCI. *Cargill News* reported: "Amid cheers of farewell and bon voyage from the Albany staff en-masse, and many prominent Cargill officials, accompanied by whistles from the many harbor craft, the SS *Mayan* cast off her lines from the Albany pier and with flags flying, proudly set her course for Norfolk." In January, when Marcus Marshall, the head of the Albany terminal went aboard, *Cargill News* proudly called it a "palatial liner." Some expenditures were made on the vessel in Norfolk, and it returned to Albany in the spring of 1936. For the first months in 1936, the *Mayan* made 14 round trips between Hampton Roads, Virginia, and "Down-East" ports (as *Cargill News* put it); all cargoes were coal.

However, there were difficulties with the *Mayan*. First, the whole intercoastal plan had fallen through. Second, there were problems with its deep draft, over 20 feet. Some of the harbors where Cargill had hoped to find

The tug Protector *partially sunk in a Hudson River flood, late 1930s.*

dockside terminal space had less than a 20-foot draft. The inner harbor at Baltimore, for example, had to be rejected as too shallow. Finally, John Jr. reluctantly came to the conclusion that the *Mayan* was not going to work well for the Company, and it was disposed of in November 1936 at a profit of $15,319.[33]

In 1935, Cargill acquired another vessel, again a first for the Company—the tug *Protector*. It was a diesel-powered, wooden-hulled vessel, powered by a 220-hp engine, to be used as the Company's own Erie Canal towboat. The boat was some 70 feet long, had an 18-foot beam, and accommodated nine people aboard. Originally, it had been a light ice-breaking vessel and often had been used as a reception tug in Boston Harbor. As it had not been built originally as a towboat, there was a problem, as Marcus Marshall described it: "The barges are 15 feet high. . . . 'Protector' at its highest point is 14½ feet above the water line, and the barges, light, are about 13½ high . . . how could we see to steer, as the tug is lashed absolutely rigid to the stern of the barge. So, we cut a hole through the roof of the Pilot house so that the Captain could stand up through the roof, thereby giving him clear vision ahead."

But now the problem was how to control the steering of the towboat from on top of the roof, for the *Protector* had a hand steering wheel. After trying several devices, the towboat was finally equipped with a hydraulic steering device, with controls added on the top of the roof. Marshall described further problems: "As the clearance under some of the bridges was so low that the barge and tug just barely cleared . . . it was necessary to make three steering points—one in the pilot house which can be used when the barge is loaded; one on top of the roof when the barge is light, this wheel being removable and a third, located in the ceiling of the pilot house, so that when the barge is light and clearance is very close, the Captain has to remove his wheel from the roof, duck down into the hole and use the steering wheel in the ceiling of the pilot house." For John Jr., necessity in this case truly was the mother of invention!

In this mid-1930s period, barges for charter on the Erie Canal were often in short supply. All were made of wood then, most of them of limited capacity (holding about 23,000 to 26,000 bushels). Once Cargill had its own towboat, purchase of barges was the logical next step. Cargill began buying these old-style wooden barges in early 1937, eventually acquiring six. Their condition was so shabby that they were carried on the books at a sum of $215 each.

The excitement of barging with these old units—and their inefficiency—was evocatively described by Captain O'Brien of the towboat *Protector* in the June 1937 issue of *Cargill News*. Lack of speed by the ancient combination caused problems on the Hudson River: "It is a surprise if we proceed six miles in six hours of tide bucking." Slow speed also meant slow maneuver, and as the Hudson had many cross-overs (where the channel crossed from one side of the river to the other), care had to be taken when another boat came downstream moving much faster with the current and rushing toward the *Protector*.

At Troy, the first government lock allowed only a two-barge length—the minimum size of the Erie locks was 300 feet in length, 44.5 feet in width. Seven barges were in the *Protector*'s tow, each 100 feet by 20 feet, and since the *Protector* was an additional 70 feet, some of the barges had to be temporarily "parked." At the Head of the Flight, the highest point of the canal (near Waterford), there was a series of five locks, each only a quarter of a mile apart. Four barges were taken up through all five locks, then parked, allowing the *Protector* to return to Waterford for the other three barges. Each of these locks had approximately a 25-foot lift and had been hewn through rock some 50 feet high on each side.

From the Head of the Flight to Little Falls, there were 11 more locks, ranging from 3 to 11 miles apart. After leaving Utica and Rome, the Canal became Lake Oneida. As it was a treacherous lake in a windstorm (the shallowness of the lake making the waves short and choppy and therefore more dangerous), the captain would always stop at Lock 22 for a weather report; if the wind was blowing from the northwest at more than 15 miles an hour, a tow generally did not go on the lake.

Near Rochester, the Genesee River crossed the canal, and the currents could be quite swift if there had been heavy rain in its upper reaches. When it was fast, tow captains would take only half their tow across at one time. O'Brien told of problems on *Protector*'s first trip: "Soon after we started across the river we could see by our barges that the river was plenty fast. They started to swing down the river. We had to give the tug more power to break the boats and when they did the head boat headed for one shore and the fourth boat whipped around and was part way down the river."

The rest of the trip onward to Buffalo generally was uneventful, although sometimes a current had to be contended with in the Niagara River. Adventure notwithstanding, the negative message conveyed by this process of barging with outmoded equipment was not lost on John Jr. In the winter of 1938, he made an important decision about the Company's barging equipment, a move that was to bring about a major innovation.[34]

The "Carneida *Type*"

The antiquated wooden barges were now phased out—by two steps. First, in the winter of 1938–1939, before the shipping season, the Company bought six modern wooden barges, at a substantial total cost of $50,000. These would be the units handled by the towboat *Protector*. Second, Cargill entered the shipbuilding business itself for the very first time. The

reasons Cargill itself became the builder, rather than using an outsider specializing in towboats, are interesting.

John Jr. not only was substantially involved in shipping but also was an amateur boat designer, although up to this time only on paper. In observing the Erie Canal shipments of the Company, he came to hold three strong views. First, Cargill's towboat-barge combination was too slow, the O'Brien story of bucking the tide on the Hudson a vivid example. Second, he saw that when the towboat and barges went through the locks, there was much space around the combination—front, back and sides—that could be filled by a larger barge. Third, if a towboat barge unit could be somehow made into one rigid unit, it would be safer in winding its way through the twists and turns of the river and canal and much of the time spent in detaching and reattaching the various barges at each lock, so well documented by O'Brien, might be completely eliminated.

Thus, John Jr. evolved in his mind a wholly new way to construct both towboats and barges, a configuration that later was named the "*Carneida* type." It was to be an integrated unit, wide enough to fill the locks almost completely. There would be four sections, and these would be held together by two steel cables fastened on each side of the first section, an-

The Carneida *filling an Erie Canal lock, late 1930s.*

chored on each side of the last section and running along the decks of the four sections. The cables were to be tightened or slackened by means of a winch. The barge itself was to be made of steel, single-skin, with no bilge, that is, no false bottom. However, the Company could not find any outside contractors who would build such a barge. The notion of the less sturdy single skin and the huge size that seemed to squeeze the locks apparently made the conventional builders back off.

At this point John Jr. made the decision that the Company would be the builder. He hired a new man, Chris Jensen, soon to be known as "the Wild Dane," who went to Albany from Minneapolis to set up a shipbuilding operation from scratch. Over the winter and early spring of 1938–1939, a four-barge steel unit was completed. It consisted of three sections, each 60 feet long, and one 45 feet long, all with beams of 43 feet and each divided into 15-foot compartments. With the *Protector* behind it, the total came to 295 feet, just 5 feet short of the length of the smallest lock. The day that Chris Jensen launched the four, one started to sink. It was soon learned that the problem was only a seacock that had been left open, and all four were determined to be seaworthy.

Now the question came, would the unorthodox combination work? The nagging concern was whether the barge was perhaps too wide to be able to go through the locks successfully—the theoretical clearances were there, but would it work practically? The *Cargill News* reported on the first trip:

> We left the Elevator and started up the Hudson River. Everything progressed as planned. Mr. Neilson, Chris Jensen and myself [Marcus Marshall, the Albany superintendent] were with the crew. We went through the three bridges at Albany O.K., and everything ran fine until we came to the first lock located at Troy, N.Y., called the Government Lock. Chris, Frank and myself all stood on the bow as we neared the lock, and I think the same question was in all our minds.
>
> We were all sizing up the entrance into the lock with the width of the barge and the question was "Will she go in?" When Captain O'Brien had it lined up and we were only 100 feet from the lock, the Captain called out, "It's too late now, Chris, if you made any mistakes in your measurements." Chris turned to me and said, 'I'm afraid she won't go,' and believe me that cigar caught hell until that barge entered the lock. With the rub-rails on the barge, we had only 1½ feet clearance in the lock. In other words, 9 inches on each side.

With the success of this unit, Cargill was now able to persuade a New York City contractor, J. K. Welding Company, to build a second similar unit. This four-section unit was 265 feet long. A new towboat was specially built to Cargill dimensions, powered with a 240-hp engine, and only 49 feet long—an unusual combination of short length and large horsepower (the *Protector*, at 70 feet, was powered with a 220-hp engine).

There was another innovation, too. The maximum lock length was 300 feet, the barge was 265 feet, and the towboat was 49 feet; simple addition

shows that the total unit was 314 feet long. The Cargill plan solved this by creating a large 15-foot V-notch into the back of the rear barge unit, exactly congruent with the extended V of the front of the new towboat (called the *Carbany*, a combination of "Cargill" and "Albany"). Thus, the total length was 299 feet, just 1 foot short of the total size of the lock. Now there would be just 9 inches space on each side, only 6 inches on each end.

Once again, the new *Carbany* and its four barges went through the locks with aplomb. As the new units, now designated CCI No. 2 and CCI No. 3, respectively, began to ply the Erie/Hudson waterways, the Company took quite a ribbing for their operation. *Cargill News* reported on this:

> It was quite interesting, as we entered the different locks, to hear the comments of the people standing on the locks. They would run something like this. "There is a lot of money spent for tin cans that will never work. Wait until they get high water and then see what happens." We heard one lock tender call the other saying, "That bunch of tin cans with an outboard motor behind it is going towards you," and then when the second unit, or CCI No. 3 came out with even a shorter tug, one lock tender says, "My God, they got the outboard motor in the back end of the barge."

John Jr. crowed to Ed Grimes, "the 'sardine fleet' as the boys call our new unit . . . is very successful . . . performing better than we ever expected."

The difference in capacities and speeds between the wooden units and the steel units was astounding. The six modern wooden barges of the Company could carry 120,000 bushels of wheat, but the unit would take a total of 11 days to make a round trip between Albany and Oswego, using a crew of 13 men. The new steel barges would make that same round trip, carrying 96,500 bushels in as short a time as eight days, using a crew only of nine. The locking time of the wooden fleet was about one hour. The new barges could be locked in about 10 minutes. The wooden fleet could make about 3 mph loaded and about 5 mph light; the steel units could make 5.6 mph loaded and 7.5 mph light. These speeds were based on a draft of 10 feet, used at that time because of the 12-foot draft of the Canal. This draft was going to be deepened to 14 feet; if this happened, Cargill could load to a deeper draft of approximately 11½ feet, thus increasing the carrying capacity of the steel units another 20 percent.

In sum, Cargill—particularly, John Jr.—had successfully put into effect a major waterways innovation, one that would have far-reaching consequences all over the country.[35]

A Cargill Towboat Fleet

The success of Cargill's Erie Canal towboats and steel barges encouraged John Jr. to develop new ideas. The *Carbany* and its companion notched-barge unit (CCI No. 3) became the models. The smaller length of

The Carbany *in 1938, with Captain Praeger steering through a hole in the roof.*

the *Carbany* and the 15-foot notch in the rear towboat gave the maximum capacity for the Erie Canal lock system. Now John Jr. wanted more and would order five new complete towboat/barge units by the end of the year 1939.

The first and second of the new towboats, to be identical to the *Carbany*, were to be built by Bethlehem Steel Corporation at its Leetsdale yards near Pittsburgh. Some steel barges would continue to be built by Cargill itself at its new "shipyard" at Albany, and others would be purchased from outside builders. The cost for four of the towboats was in the range of \$70,000 each (one, lower-powered, was in the \$50,000 range), and the steel barge units each cost just over \$50,000. Thus, John Jr. had made the decision to expend over \$600,000, Cargill to own all the units outright.[36]

The first two towboats to be delivered in the summer of 1940 were the *Carswego* (Oswego) and the *Carneida* (Oneida). The next three to be com-

pleted by the summer of 1940, were the *Carchester* (Rochester), the *Carnectady* (Schenectady) and the *Carnesee* (Genesee). The financing of the latter three towboats, a substantial sum, concerned John Jr. Once again, he argued for an "opportunity cost" decision, writing John Peterson in December 1939:

> I realize perfectly that our general credit is not going to be good until the Board of Trade case is settled. . . . The trouble with waiting for that, however, is that if we delay we will not be able to get our equipment for the opening of navigation . . . If the war continues through next summer we will have a very brisk and continuous export demand all summer, with high freight rates both on the Canal and the St Lawrence River. . . . If this is the case, we might conceivably pay for them the first year, although in peacetime . . . it would take about three years to pay out

Despite the general unease in the Company about the financial effects of the Corn Case, Peterson readily agreed to the financing arrangements, and the contracts for the entire set of five units were now in place.[37]

The Sinking of the Carneida

With the towboat *Carbany* delivered and in service on the Erie Canal by late 1939, Company officials eagerly awaited the arrival of the additional towboats and steel-barge units ordered from the shipyards of Bethlehem. The first unit, the towboat *Carneida* and three steel barges, was to be delivered in the early summer of 1940. All had been built at the Pittsburgh location, but were to be used on the Erie Canal, so a substantial trip lay ahead for the units—down the Ohio River, up the Mississippi and Illinois rivers and the Illinois-Michigan Canal and then through Lakes Michigan, Huron and Erie to Buffalo. This would be a major test of the seaworthiness of the units.

Frank Neilson had argued that the towboat should be sent separately from the barges, but John Jr. telegraphed back: "It looks to me as though it is out of question not to bring our fleets around as units. We need the experience of all of them on the lakes and also as much river experience as possible which we would not be getting the other way."

So in the third week of July, the *Carneida*, lashed together with its three barges began the trip down the Ohio River. Captain O'Brien was on board and sent John Jr. a telegram on July 29: "Going fine. Lost lot of time in fog. Lights on bow not working. Making seven miles per hour. Engine running fine." John Jr. was excited about his new vessel and decided to fly to Cairo, Illinois; there he went aboard for the trip up the Mississippi and Illinois rivers. He wired his father and brother on August 8: "Expect to make Chicago in three days running time . . . against a rising river and 4 miles current. The *Carneida* fully up to expectations. Urge Cargill to join us enroute."

Immediately upon arrival at Cargill's Chicago terminal, the barges were loaded with 1,900 tons of bagged corn. On August 15, the publication *Modern Miller* sent a telegram to John Jr., asking details for what was, to use their words, a "first trip of its kind." John Jr. wired the full story and ended: "She was designed to fit as closely as possible in the locks of the Erie Canal and it is hoped that she will carry more cargo than any single locking unit theretofore to transit the Erie Canal."

Neilson himself would be on board, and he wired John Jr. of the imminent departure into Lake Michigan. John Jr. replied: "What is the weather like and was the radio phone working when they left?" John Jr. himself had been predicting weather for the earlier part of the *Carneida* trip; he had been so accurate that Philip Sayles had wired Cargill MacMillan: "What will that fellow do next. Better get him on the payroll."

Later on that day, August 17, another telegram arrived: "She is in sight now about half way between Chicago and So. Chicago and has been for some time this morning. Would assume from the maneuvering they are adjusting compass."

It was more than just maneuvering—there was trouble. The day was windy and the seas high. On August 22, 1940, those seas swamped the towboat and two of the three barges, which promptly sank in 70-foot waters. The third broke lose and floated away. Eleven of the twelve men escaped in the lifeboat. One man, the radio technician, was washed overboard and remained in the water 90 minutes before the lifeboat was able to pick him up. Unfortunately, the lifeboat itself began to split its seams and was just about to swamp when the Coast Guard (who had been summoned by radio from the towboat before it sank) appeared and found the men "crowded in a small lifeboat which was shipping water fast." All were rescued and brought ashore.

John Jr.'s telegram to John Peterson on August 23 confirmed the loss: "You have undoubtedly read the gossip about loss of the *Carneida*. We do not know yet what happened but fortunately no one was injured. Hays says we are fully insured but we may yet have a dispute with the insurance companies as there is some kind of joker in their confirmations to us." The towboat and the two lost barges lay in about 78 feet of water some eight miles off the shoreline near Wilmette, Illinois.

By the first week in September, the Company had a diver on the site; Neilson reported to John Jr.: "Diver on towboat yesterday. The units are still connected. Resting right side up and on a coarse gravel bottom. He reports large holes in forward end and a pile of corn outside that end. Am trying to get someone to bid on corn removal. He brought up some corn and it looked okay." Later, substantial amounts of the corn were brought up, but efforts to raise the towboat over the following weeks were unsuccessful.

The conventional way to salvage a boat of this size was by using huge inflatable pontoons. Neilson wanted to try another, cheaper way—to winch the towboat and the barges to the surface. The weather was bad that fall, and he could not make his system work. Finally, in May of the following year (1941), the towboat was raised by Neilson's method. He reported to John Jr. on the vessel's condition: "Both main engines and aux[iliaries] have been run and there is no apparent damage. Celotex and floor covering in good shape. No hull damage. Beds and furniture about gone. Reconditioning of towboat should be very reasonable." One of the two barges also was brought up at that time, once more using Neilson's winch method, and a few weeks later the other barge also was hoisted to the surface.[38]

It was an expensive accident for the Company. When the *Carneida* and its barges went down in August 1940, their entire cost had to be moved from the CCI property register to the Cargill, Incorporated, books—a sum of some $116,000. Fortunately, with the Neilson salvage efforts finally successful, both the towboat and the barges were put right back into service, so only a small portion of this amount had to be written off as a loss: Neilson's salvage costs turned out to be relatively small. It was a costly endeavor in human terms, however, for Neilson got wet and overtired, possibly a factor in his ill health that began in early World War II.

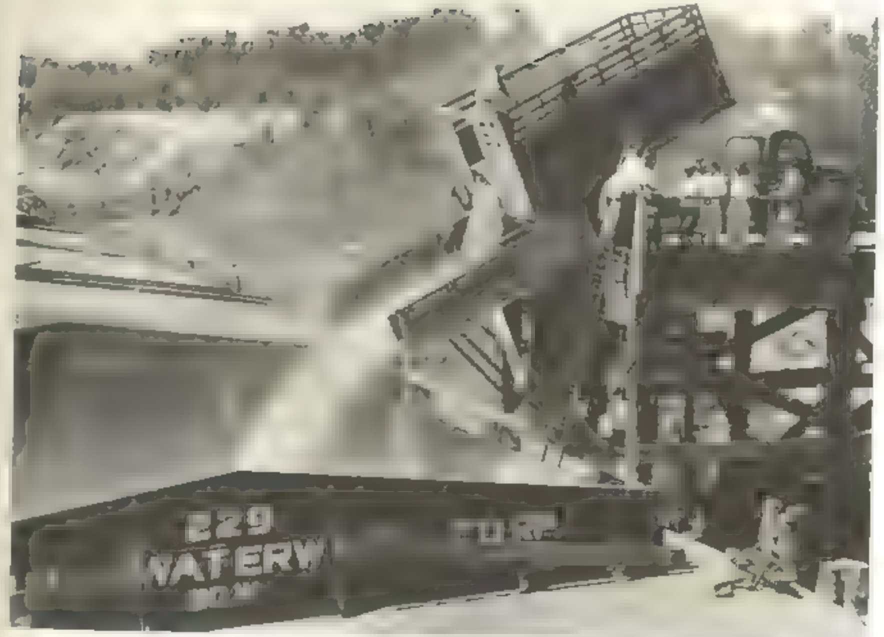
The next towboat/barge combination (the *Carchester* and its steel barges) was brought down the Ohio and up the Illinois and through the Great Lakes without incident; the other units were delivered over the later months of 1940 in the same fashion. Only minimum loads were put on the barges while on the lakes, however, so as not to repeat the *Carneida* disaster.

More Transportation Battles

A momentous confrontation took place on the domestic transportation scene in the period 1939–1941 that provided a window on some profound changes taking place in the country's basic transportation patterns. The issue involved a rate battle between barge lines and railroads.

The 1930s had witnessed slowly increasing use of the Illinois and Michigan Canal, particularly after the building of the so-called Illinois Waterway section in 1933 allowing larger barges entry into Chicago from the Illinois River. The grain traders and the barge companies took quick advantage of this, the former group building new terminals along the Illinois River (Continental Grain and Norris being the largest) and the barge companies providing the service.

Shipments of grain by barge now skyrocketed. In 1933, when the Illinois Waterway was originally opened, some 38,000 bushels of corn were shipped



Loading by truck to barge, Missouri River, c. 1947.

by barge into Chicago—but rail shipments were 91,432,000 bushels, some 2,400 times as much. By 1939, over 13 million bushels of corn came by barge, with rail down slightly to 65 million, so rail was now just five times as much. Truck shipments of grain into Chicago, incidentally, had almost quadrupled in this same period. Barge shipments of wheat, oats and soybeans were also increasing but not at the rate of corn. Inasmuch as downstate Illinois was "corn country," those escalating corn shipments were really a critical loss for the railroads.

They began to use their potent rate-making power to fight back. Late in 1939, the railroads published rates for shipment of grain eastward from Chicago that explicitly excluded "ex-barge" grains (those that had come into Chicago by barge) from sharing in the more favorable "proportional rates" on the eastward rail leg. Inasmuch as a large amount of this grain did go through Chicago and on eastward either directly or after being stored, this was a severe competitive disadvantage for shippers by barge. Immediately, a case was brought forward to the ICC by a group of protestants, which included several barge companies along with the key grain companies involved. In the latter group, Continental Grain and Norris

took the major role, but Cargill joined with them in the protest even though the Company did not yet have terminals along the Illinois River. Other organizations intervened and/or filed briefs.

The situation presented the Chicago Board of Trade with an interesting dilemma. Many of its members were large grain-trading companies interested in the lowest possible rates and so joined with the barge companies. A number of other smaller CBOT commission houses, trading from central Illinois points other than along the Illinois River, favored the discrimination against barge shippers. At that time, the CBOT leadership was dominated by the commission houses. Expectedly, the board of the Exchange voted to intervene on the side of the railroads. Later, as the case progressed, a change in the leadership at the Exchange increased representation for terminal merchants, and the CBOT shifted to a neutral position in the case. Another intervener, a surprising one, was the United States Department of Agriculture. While the USDA was not willing to take a position favoring either rail or barge, it entered the case on the limited premise of protecting the farmer to ensure the lowest possible shipping cost.

The case progressed through the administrative maze of the ICC and was finally decided by the commissioners on July 31, 1941. In a complex opinion, covering some 46 pages, a majority favored the rail argument and ordered that the proportional rates of grain going east could not be shared in by "ex-barge" grain. There was a strong dissenting opinion by one of the commissioners.

Given the great importance of the case, the protestants promptly carried the case to the appeal group, the full ICC commissioners, acting as a Commission on Reconsideration. Once again, the railroads won the case, but this time there was a lengthy, telling dissent by Joseph B. Eastman, the renowned chairman of the Commission. Eastman was just about to be appointed Roosevelt's director of the Office of Defense Transportation, and this was his last major case before leaving the ICC.

Eastman's was a sophisticated analysis, with the kind of documentation that dissenting lawyers hope always to have for future cases. He was blunt in his feelings that farmers would be hurt by the pricing pattern established by the case. Further, Eastman chose not to soft-pedal the issue of the basic competition between rail and barge; his brief said in part: "It is significant that a witness for respondents testified that the schedules under suspension were proposed 'with a hope that we could drive this business off the water and back onto the rails where it belongs.' In the final analysis," said Eastman, "this is a case where it is proposed to charge persons shipping ex-barge grain a greater compensation than is charged other persons shipping ex-rail or ex-lake grain for a 'like and contemporaneous service.' " This violated the law, Eastman averred. An Eastman opinion was always one of

importance; this lengthy, analytical effort would be used by both protestants and respondents many times in the future.[39]

This time the barge shippers lost the battle—but their war against the railroads was to continue almost unabated. In 1940, the United States Congress passed a new Transportation Act, designed explicitly to bring motor carrier and barge line companies under the jurisdiction of the ICC. While the Act did just that, in the case of the barge lines the exemptions made the regulation of that industry almost minimal. In particular, if a barge line transported no more than three commodities in bulk or if the cargo was liquid in bulk, no regulation could be imposed. Inasmuch as grain shipments made up a huge percentage of the barge lines' traffic, this was a critically important constraint on regulation. There would be many more chapters to the rail–barge battle (indeed, it became a three-way battle between rail, barge and truck). Round one, however, was over.

CHAPTER FOURTEEN

The Late 1930s

When Franklin Delano Roosevelt was reelected to the presidency in November 1936, it was by a landslide; he carried every state but Maine and Vermont. With an overwhelming majority in both the Senate and the House, the outlook seemed euphoric for the Democrats. FDR's inaugural speech on January 20, 1937, stressed "social justice," and he followed with a plan to counter the invalidation of his programs by the Supreme Court. He proposed to reorganize that body, a notion that soon was dubbed by the press as "packing the Supreme Court." Outraged debates on this plan lasted over the spring. Roosevelt lost this battle, but the issue inflamed the business community perhaps more than any other single Roosevelt initiative.

An incipient "prosperity" in early 1937 had proved false. Mass unemployment continued, and industry remained sluggish. Only government deficit spending kept things moving. Inflation now threatened, and Roosevelt answered with severe budget cuts. This triggered a recession that soon became pronounced.

Once again Roosevelt appeared indecisive, not able to choose between that cadre in the administration who advocated governmental intervention (many influenced by the 1936 book of John Maynard Keynes, *The General Theory of Employment, Interest and Money*) and his conservative advisors who were preaching a balanced budget and who believed that the administration needed to cater to business to persuade it to invest. The President aligned himself with the former. Harold Ickes wrote: "The President feels that the big money interests are in an 'unconscious conspiracy.' " Yet Roosevelt let the conservatives hold sway for the rest of 1937. The liberals countered by stepping up their rhetoric against business. Assistant Attorney General Robert Jackson spoke of the "strike of capital against reform," and Ickes charged that "America's Sixty Families" had once again renewed "the old struggle between the power of money and the power of the Democratic instinct." William Leuchtenburg, writing of Roosevelt's dilemma, likened him to Hoover, "the victim of his own hubris."[1]

The Farm Bloc rushed into this vacuum, advancing its plans for a second AAA. Despite short-term scarcities bred by the drought in 1936, Secretary of Agriculture Henry Wallace had continued to push the ever-normal granary, returning over and over to the Old Testament story of Joseph in Egypt. In a speech in August 1936, he even characterized his plan as "the Joseph Idea."

If scarcity had seemed the pattern after the 1936 drought, the crop year 1937–1938 brought back surpluses. Crops around the world were excellent, a combination of record sown acreage and high yields, due, said the editors of *Wheat Studies*, "principally . . . to nature." Grain prices had been sagging all through this crop year. Chicago cash wheat, for example, had drifted downward from more than $1.25 in July 1937, to a point below 70 cents one year later. Farm groups all over the world insisted that prices be held steady. A *Wheat Studies* editorial decried this insistence on "super-economic prices" as "palpably uneconomic." The *Wheat Studies* experts particularly took aim at Wallace's Joseph Idea: "Wheat growers have been increasingly led to expect that if a big crop came, it would be welcome to fill an 'ever-normal granary,' and that their financial interests would be assiduously safeguarded."

In the face of such surpluses, high prices could be accomplished only by governmental intervention. Thus was born the "second AAA." Faced with a seething farm rebellion, Congress passed a statute that provided a concept of "parity" for the five principal crops, coupled with acreage allotments for these. The soil conservation plan of the 1936 legislation was continued. Commodity loans would be provided to farmers for storing surpluses in big crop years. Producers of corn, wheat, cotton, tobacco and rice could obtain storage loans to put a floor under prices, which would allow them to finance the holding of surplus supplies. Each farm would be given a marketing quota after a positive referendum on the quota by producers in that area. If the loans and quotas were still too low in light of the goals of "parity," the Secretary of Agriculture was authorized to make direct subsidy payments. There was also a crop insurance plan for wheat.

A threat to any subsidy program is the possibility that a country might price itself out of the world market. This time the United States government made certain it did not repeat its ill-starred blunder of the 1930 Farm Board period. After three years as a net importer of wheat (1934, 1935 and 1936, the first years this had ever happened), the United States became the second largest wheat exporter in 1937–1938, only Australia being larger. Some of this increase was accounted for by the removal in early 1938 of the Dominion preference provisions in the United Kingdom.

Cargill itself had had spotty and relatively small foreign sales through the early and mid-1930s. However, in this 1937–1938 crop year, 28 million bushels were sold abroad, much through brokers contacted by C. C. Boden, manager of the New York office. This constituted almost 25 percent of the entire Company's sales.

The crop year 1938–1939 once again was very prolific. There was a "super abundance of wheat," said *Wheat Studies*, and cotton, too, was nearing a glut. The United States government dumped over 128 million bushels of wheat abroad in the crop year 1938–1939, losing some 29 cents on each bushel. Similar export subsidies were needed for cotton.[2]

Once Roosevelt had initiated more government intervention in the spring of 1938, the antimonopoly attack was stepped up. On April 29, the President asked Congress for funds to investigate "the concentration of economic power." This led to the establishment of the Temporary National Economic Committee (TNEC). Businessmen around the country worried as the TNEC began to schedule hearings, which ultimately lasted almost three years. Earlier, the grain trade had been investigated by the Federal Trade Commission; the former wondered if they would again be put under the microscope.[3]

The shift by the Roosevelt administration toward harsher policies regarding the business community once again raised questions in the minds of Cargill's owners about the advisability of moving part of the Company operations abroad. Cargill MacMillan proposed "to remove 10% of our working capital from the jurisdiction of the United States," and John Jr. had a more radical notion: "We would . . . be well advised to liquidate entirely our business in the United States. There seems very little real understanding in Washington of the nature of the problem, let alone with the disposition to work out a solution along rational lines." Again, however, no specifics were proposed, and the idea lay dormant.[4]

Retrenchment

John Jr. had predicted solid company performance for the crop year 1937–1938. He was wrong, and the results were dreadful. The Grain Account lost over $1.4 million and the net loss for the Company was over $1.1 million. The Corn Case had been costly. Working capital had been pushed down almost $800,000. The Company paid its preferred stock dividend and a modest 3 percent dividend on the common stock. Operating losses for this year were $998,000, and the federal and Dominion taxes were another $122,000, so a sum of over $570,000 had to be moved from the contingent reserve account just to hold the working capital drain to that $800,000 figure. Despite the sale of over 116 million bushels of grain (including exports of over 24 million bushels), John Jr.'s zealous purchasing, governed not so much by the market itself as by the dictates of the Corn Case, had left a huge 23.7 million bushels still in inventory. The year before, it had been only 6.8 million bushels.

Cutbacks seemed imperative, particularly so to John Sr., who had been pessimistic for several years. In August 1938, six offices of the Company were closed. The operations at Spokane, Washington, and Lewiston, Idaho, were taken over by the Portland, Oregon, office, their former managers now acting as brokers. Similarly, the small Boston office was closed, and the manager there became a broker, "representing ourselves and other firms." The Memphis, Tennessee, office (but not the terminal itself) was closed, with the St. Louis office handling its business. The offices in San Francisco and Los Angeles were closed outright, "as there does not seem to be enough business at the present time to warrant their continuance" (so reported *Cargill News*).

At the St. Louis office a surprise occurred in management. Merle Grover, its manager, and two of his key employees were persuaded to join the Fox Grain Company of New Orleans, a Cargill competitor. E. T. Pettersen, the Portland manager for a number of years was transferred in to take charge of the St. Louis office. This was a major defection, unsettling to the Company. Raiding of competitor personnel by grain companies was not uncommon in the industry, although Cargill, with its promotion-from-within policy, did less of this than most. Grain trading was highly confidential, and any loss of a key management person was viewed with apprehension.

These cutbacks were only initial steps. Later that year salary cuts were considered. John Sr. wrote John Jr.: "I have been thinking seriously of getting all our executives together and putting this up to them straight—that we have to trim our expenses terribly, and that while I do not want to cut salaries I do believe in the idea of trimming off all the inefficient ones in the organization." John Sr. had a study made of all management salaries, estimating the amount that would be saved if a sliding scale cut, from 20 percent down to 5 percent, were applied. The 133 people in this group made a total of $61,735 per month; the salary cut would take this down by $9,047 (the list, incidentally, gives further evidence about views on the relative worth of individuals: John Sr. and John Jr. were at $50,000 per year; Cargill MacMillan, Austen Cargill, John Peterson and Julius Hendel were paid $20,000; Ed Grimes, Dan MacMillan and Frank Neilson were at $15,000, and the rest ranged downward to 19 men paid $2,400 per year).

John Sr. primarily blamed the government for Cargill's bad year (conveniently forgetting about the losses from the abortive Corn Case). When R. E. Wisner, the son-in-law of "Aunt Maggie" Barker, wrote John Sr. about a possible further common stock dividend, John Sr. replied, "We cannot pay it and show red ink figures." Earlier in 1938, Wisner had written

John Sr. requesting a loan on his wife, Margaret's, Cargill stock. His Janesville bank would not allow stock in a privately held company to be used as collateral. John Sr. replied by telegram: "Dislike intensely making family loans but if necessary will do so in your case for not to exceed 14 months." He followed with a letter of elaboration: "I do not know of anything that is so unpleasant as to get mixed up in family financial matters. It almost always results in hard feeling, and that is the last thing in the world that I ever want." He grudgingly made arrangements for granting the loan but added, "I will have to ask you 4½% interest, however, as Cargill, Incorporated pay 4% to those depositing money with it."

Family members continued to see John Sr. as the patriarch, the one to write to regarding such important matters as dividends, loans, and so on. But for the business, it was evident by this time that John Sr.'s counsel on grain trade matters was considered less relevant. Indeed, in January 1937, John Jr. had wired Cargill MacMillan a rather pointed message: "Please ask father to defer to Julius on hedges at least until I get home. We were in complete agreement when I left and I am confident that any deviation from our program is sure to be very expensive."

John Sr.'s Christmas message in the December 1938 *Cargill News* referred, as it so often did, to the economics of the Company: "Business conditions generally are bad. Many are thinking of discontinuing business completely, for no concern can continue to lose money indefinitely. Heavy curtailment of expenses is inevitable." John Sr. seemed to be laying the groundwork for possible future cutbacks in offices and salaries; his ending sentence left little cheer: "This, however, is not intended as a message of gloom but merely one of warning."

The rest of this Christmas message was devoted to another subject altogether, one that, if anything, was even more upsetting to John Sr. It involved disloyalty by three Cargill employees.[5]

An "Insider Trading" Transgression

Being a grain trader—actually *trading* grain—is an incredibly demanding profession. Split-second timing is needed, and a tremendous amount of responsibility rests on the shoulders of traders, particularly those who trade for someone else, be they company traders or outside brokers. Cargill grain men were required to trade exclusively and only for the Company. In turn, the Company vested a high degree of autonomy in its traders—gave them wide latitude to decide when to trade, at what price and in what quantities. Over the years, actual trading of grain had become the pinnacle for a Cargill employee; one was not quite a fully successful manager until he had actually traded grain—and made money doing it. There were no female traders at that time.

One of the persistent problems of the grain exchanges was the possibility of "insider trading." If a broker was trading both for himself and for others, there was always the temptation to direct the best trades toward himself and let others absorb any losses. The temptation was particularly strong if certain inside information happened to be known. In such a case, the holder of the privileged information had a jump on those having only public knowledge.

Generally, grain-trading companies had strict rules requiring their employees to trade only for the company and never for themselves personally. Some firms were signal exceptions, and grain trade veterans recount many anecdotes of striking individual-employee profits and losses. Prohibition of individual trading, however, was Cargill's unwavering rule.

Now, in early 1938, at the worst point of the Corn Case (just before Cargill's expulsion from the CBOT) and with the recession in full bloom, an audit by R. J. Semsch showed that three employees had been trading on their own, in addition to trading for the Company. All three were key Minneapolis traders. One of them, an outstanding performer for the Company, even had been allowed a substantial amount of employee common stock. But this man had been trading on his own account since mid-1933, and the amounts involved were substantial. It was a clever arrangement, involving the use of friends' names for the trading. Losses had been hidden in Company accounts. This discovery was made just after the first of the year 1938, with the investigation extending into the spring. The result was dismissal of the three men, each agreeing to reimburse the Company for its losses. In two cases, the bonding company had to stand the loss.

John Sr. decided to devote the editorial page of the *Cargill News* to the matter in that same December 1938 issue carrying the Christmas "message of gloom." The editorial read as follows:

VALUE OF A GOOD NAME

One of the saddest things that can happen to any of us is the loss of our good name and reputation. As you know, it is an outstanding rule of this organization that no employee is allowed to speculate on his own account in Grain, Stocks or Commodities or to manage any such account for others.

This year, however, we uncovered activities of three of our prominent and outstanding employees who were speculating on their own account . . . trying to cover it up by falsifying the books. When the inevitable discovery was made we could do nothing but dismiss them all . . . we could never trust them again where money in a substantial way was involved.

. . . It is hard to believe that anyone would be so foolish as to risk his position and his reputation for so foolish an undertaking, and the reputation of these men is gone probably for good . . . so often the men who are brightest and keenest . . . get themselves trapped in this way. They feel that they are just a little brighter than the general run and can beat out the game, and I sincerely hope that every member of this organization will take warning.[6]